

*Compliance and Internal Control*

**State of Chuuk  
Federated States of Micronesia**

*Year Ended September 30, 2022  
with Report of Independent Auditors*



State of Chuuk  
Federated States of Micronesia

Reports on Compliance and Internal Control

Year Ended September 30, 2022

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk, as of September 30, 2022, and for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated July 29, 2024. Our report was qualified in respects to \$6,064,011 accounts receivable and \$8,419,609 unearned revenues in the State’s Grants Assistance Fund and the Governmental Activities as we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of these accounts. In addition, our report was qualified in respects to \$8,543,745 land acquisition payable in the State’s General Fund and the Governmental Activities as we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of this account. Lastly, our report was qualified as the State has not recorded right-to- use assets and lease liabilities, as required by generally accepted accounting principles, for land leases in the governmental activities and the General Fund. Consequently, we were unable to determine whether any adjustments to these amounts were necessary in the Governmental Activities and General Fund.

For purposes of this report, our conclusion of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Chuuk State Health Care Plan and Chuuk Public Utility Corporation, which were audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for 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 State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-002 and 2022-003 to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 to be a significant deficiency.

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

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001.

## **The State's Response to Findings**

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

## **Purpose of This Report**

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

*Ernst + Young LLP*

July 29, 2024

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

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

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

#### ***Opinion on Each Major Federal Program***

We have audited the State of Chuuk (the State's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended September 30, 2022. The State's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

#### ***Basis for Opinion on Each Major Federal Program***

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

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

## ***Responsibilities of Management for Compliance***

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

## ***Auditor's Responsibilities for the Audit of Compliance***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the State's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the State's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over compliance. Accordingly, no such opinion is expressed.

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

## ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-004 under ALN 15.875 Economic, Social, and Political Development of the Territories, for Period of Performance. 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 State's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

### **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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be 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. *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 item 2022-004 under ALN 15.875 Economic, Social, and Political Development of the Territories, for Period of Performance to be a significant deficiency.

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

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



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

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the State's basis financial statements. We have issued our report thereon dated July 29, 2024, which contained a qualified opinion in respects to \$6,064,011 accounts receivable and \$8,419,609 unearned revenues in the State's Grants Assistance Fund and the Governmental Activities as we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of these accounts. In addition, our report was qualified in respects to \$8,543,745 land acquisition payable in the State's General Fund and the Governmental Activities as we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of this account. Lastly, our report was qualified as the State has not recorded right-to-use assets and lease liabilities, as required by generally accepted accounting principles, for land leases in the Governmental Activities and the General Fund. 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the schedule of expenditures of federal awards of the qualified opinion on the financial statements of the Governmental Activities as described above, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Ernst + Young LLP*

July 29, 2024

State of Chuuk  
Federated States of Micronesia

Summary Schedule of Expenditures of Federal Awards, by Grantor

Year Ended September 30, 2022

<b>Agency/Program</b>	<b>Expenditures</b>
U.S. Department of the Interior	\$ 26,838,376
U.S. Department of Education	974,471
U.S. Department of Health and Human Services	<u>1,333,208</u>
Grand Total	\$ <u>29,146,055</u>
Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 29,173,207
Less:	
Foreign Assistance Fund expenditures included in General Government expenditures	( <u>27,152</u> )
	\$ <u>29,146,055</u>

*See accompanying notes to schedule of expenditures of federal awards.*

State of Chuuk  
Federated States of Micronesia

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>AL#</b>	<b>Entity Identifying #</b>	<b>Other Identifier</b>	<b>Expenditures</b>
<b>U.S. Department of the Interior</b>				
Pass-Through Federated States of Micronesia National Government:		A2		
Economic, Social and Political Development of the Territories:	15.875			
Compact Sector Grants - Education Sector	15.875			\$ 9,724,685
Compact Sector Grants - Health Sector	15.875			11,232,245
Compact Sector Grants - Environment Sector	15.875			21,860
Compact Sector Grants - Capacity Building Sector	15.875			541,853
Supplemental Education Grant	15.875			3,713,564
Compact Sector Grants - ERA	15.875			603,399
Compact Sector Grants - Infrastructure	15.875			<u>1,000,770</u>
Total Compact Sector Grants Fund				<u>26,838,376</u>
<b>Total U.S. Department of the Interior</b>				<u>\$ 26,838,376</u>
<b>U.S. Department of Education</b>				
Pass-Through Federated States of Micronesia National Government:		A2		
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA, Part B)	84.027			\$ <u>974,471</u>
Special Education Cluster (IDEA) Subtotal				
<b>Total U.S. Department of Education</b>				<u>\$ 974,471</u>
<b>U.S. Department of Health and Human Services</b>				
Pass-Through Federated States of Micronesia National Government:		A2		
Public Health Emergency Preparedness	93.069			\$ 16,060
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			38,476
Maternal and Child Health Federal Consolidated Program	93.110			12,008
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			177,170
Family Planning Services	93.217			61,196
Substance Abuse and Mental Health Services -Projects of Regional and National Significance	93.243			101,060
Immunization Cooperative Agreements	93.268			421,823
Leading Edge Acceleration Projects (LEAP) in Health Information Technology	93.345			40,384
OPIOID STR	93.788			50,707
National Bioterrorism Hospital Preparedness Program	93.889			12,955
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898			35,535
Block Grants for Community Mental Health Services	93.958			22,088
Block Grants for Prevention and Treatment of Substance Abuse	93.959			222,245
Maternal and Child Health Services Block Grant to the States	93.994			<u>121,501</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>\$ 1,333,208</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 29,146,055</u>

*See accompanying notes to schedule of expenditures of federal awards.*

State of Chuuk  
Federated States of Micronesia

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

**1. Scope**

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

**2. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Chuuk under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Chuuk, it is not intended to and does not present the financial position or changes in financial position of State of Chuuk.

**3. Summary of Significant Accounting Policies**

***Basis of Accounting***

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

***Reporting Entity***

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Chuuk's reporting entity is defined in Note 1 to its September 30, 2022 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Chuuk, as defined above, for the year ended September 30, 2022.

***Matching Costs***

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

State of Chuuk  
Federated States of Micronesia

Notes to Schedule of Expenditures of Federal Awards, continued

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

***Indirect Cost Allocation***

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

***Component Units***

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

***Chuuk Public Utility Corporation***

The Chuuk Public Utility Corporation (CPUC), a discretely presented component unit, is the recipient of various pass-through funds. The CPUC is to separately satisfy its 2022 reporting responsibilities under the Single Audit Act. CPUC's total federal award expenditures for the year ended September 30, 2022 is \$48,952.

***Chuuk State Housing Authority***

The Chuuk State Housing Authority (CSHA), a discretely presented component unit, is the recipient of various pass-through funds from State of Chuuk in a prior year and certain direct grants. CSHA's total federal award expenditures for the year ended September 30, 2022 is undetermined.

State of Chuuk  
Federated States of Micronesia

Schedule of Findings and Questioned Costs

Year ended September 30, 2022

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Qualified and Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

  X   **Yes**             **No**

Significant deficiency(ies) identified?

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

Noncompliance material to financial statements noted?

  X   **Yes**             **No**

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?

       **Yes**        X   **No**

Significant deficiency(ies) identified?

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

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

All major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

  X   **Yes**             **No**

**Identification of major federal programs:**

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program</u>
15.875	Economic, Social and Political Development of the Territories
93.959	Block Grants for Prevention and Treatment of Substance Abuse

State of Chuuk  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

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

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

\$874,381

Auditee qualified as low-risk auditee?

\_\_\_\_\_ **Yes**      **X**   **No**

**Section II - Financial Statement Findings**

<b>Reference Number</b>	<b>Findings</b>
2022-001	Chuuk State Housing Authority
2022-002	Land Leases
2022-003	Accounts Receivable/Unearned Revenue – Compact and Federal Funds

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

<b>Reference Number</b>	<b>ALN</b>	<b>Findings</b>	<b>Questioned Costs</b>
2022-004	15.875	Period of Performance	\$0

State of Chuuk  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Year Ended September 30, 2022

Finding No.: 2022-001 - Chuuk State Housing Authority

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Recommendation:

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

Identification as a Repeat Finding: Finding No. 2021-001.

Views of Responsible Officials: The State agrees with the finding and Corrective Action is described in the Corrective Action Plan.



State of Chuuk  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-002 - Land Leases

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Recommendation:

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

Identification as a Repeat Finding: Finding No. 2021-002.

Views of Responsible Officials: The State agrees with the finding and Corrective Action is described in the Corrective Action Plan.

State of Chuuk  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-003 - Accounts Receivable/Unearned Revenue

Criteria:

Government Accounting Standards Codification N50 provides guidance over the accounting of nonexchange transactions including time requirements and purpose restrictions.

Condition:

The state did not reconcile their accounts receivable and unearned revenue balances for compact and federal funds with FSM National Government, which is the primary recipient of the grants pertaining to these funds. Further, they did not reconcile their receivable/unearned revenue balances with FSM National Government for general and other grants assistance funds. As a result of lack of reconciliations, we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of the recorded \$6,064,011 accounts receivable and \$8,419,609 unearned revenues with the FSM National Government.

Cause:

The Stated did not conduct regular reconciliations of accounts receivables/unearned revenue balances with FSM National Government.

Effect:

The reasonableness of closing balances of the accounts receivables/unearned balances with FSM National Government cannot be determined. Further, the effect of this condition is a potential misstatement of the financial statements and the notes thereto resulting in a report modification.

Recommendation:

Efforts should be made to reconcile accounts receivable/unearned revenue balances with FSM National Government and controls over regular reconciliations of balances with FSM National Government should be implemented.

Views of Responsible Officials: The State agrees with the finding and Corrective Action is described in the Corrective Action Plan.

State of Chuuk  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-004  
Pass-Through Entity: Federated States of Micronesia National Government  
Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social and Political Development of the Territories  
Area: Period of Performance  
Questioned Costs: \$0

Criteria:

In accordance with applicable period of performance (POP) requirements, funding for each Grant shall be available for obligation for the time period described in the terms and conditions of the Sector Grants, and obligations incurred under a Grant shall be liquidated not later than 90 days after the end of the funding period or as otherwise mutually agreed.

Condition:

Obligations were liquidated later than 90 days after the end of the funding period, as follows for grants expiring prior to the fiscal year ended 9/30/2022:

Federal Award	Liquidation End Date	Transaction Period	FY 2023 Expenditures
Fund 10 D11	Pre-2023	09/24/2023	\$ 232
Fund 10 D20	Pre-2023	05/07/23-09/24/23	3,705
Fund 19 D17	Pre-2023	01/15/23-07/16/23	1,000
Fund 28 D20	Pre-2023	10/05/22-06/26/23	<u>85,496</u>
			\$ <u>90,433</u>

State of Chuuk  
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-004, continued  
Pass-Through Entity: Federated States of Micronesia National Government  
Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social and Political Development of the Territories  
Area: Period of Performance  
Questioned Costs: \$0

Cause:

The State lacks controls over compliance with applicable period of performance requirements.

Effect:

The State is in noncompliance with applicable period of performance requirements. The related amounts were subsequently adjusted; therefore no questioned costs are raised but the reportable condition remains.

Recommendation:

The State should enforce controls over compliance with applicable period of performance requirements. Responsible personnel should verify the grant's obligation end date and liquidation end date prior to charging costs to the grant.

Views of Responsible Officials: The State agrees with the finding and Corrective Action is described in the Corrective Action Plan.



**DEPARTMENT OF ADMINISTRATIVE SERVICES**  
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 Director

**Restmena S. Nonumwar**  
 Deputy Director

CORRECTIVE ACTION PLAN  
 2 CFR § 200.511 (c)  
 Year Ended September 30, 2022

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2022-001	CSG agrees with the finding. As stated in previous year's corrective action plan, CSHA should submit monthly reports of daily activities to DAS. However, CSHA has not complied yet, DAS director will have a meeting again with CSHA executive director and board of directors to resolve the issue.	September 30, 2024	Jonas M. Paul- Director Department of Administrative Services <a href="mailto:jpaulckdas@gmail.com">jpaulckdas@gmail.com</a>  Cathy Lucas- Executive Director Chuuk Housing Authority
2022-002	CSG agrees with the finding. Department of Administrative Services has reconstructed subsidiary ledgers of the lessors and other individuals who have claim against Chuuk State Government. Such ledgers were submitted to the office of the governor for appropriate action and approval for booking.	September 30, 2024	Jonas M. Paul- Director Department of Administrative Services <a href="mailto:jpaulckdas@gmail.com">jpaulckdas@gmail.com</a>  Renedgardo S. Merencillo- Financial/Accounting Advisor <a href="mailto:rsmerencillo@yahoo.com">rsmerencillo@yahoo.com</a>
2022-003	CSG agrees with the finding. Chuuk State Government is performing its reconciliation on accounts receivable and unearned revenue balances for compact and federal funds. However, FSM National Government does not book its receivables from the grantors and payables to the state governments, hence, reconciliation of such accounts between FSM NG and state governments was not performed. CSG will perform the reconciliation of such accounts with FSM NG as soon as they are ready.	September 30, 2024	Jonas M. Paul- Director Department of Administrative Services <a href="mailto:jpaulckdas@gmail.com">jpaulckdas@gmail.com</a>  Renedgardo S. Merencillo- Financial/Accounting Advisor <a href="mailto:rsmerencillo@yahoo.com">rsmerencillo@yahoo.com</a>
2022-004	CSG agrees with the finding. Departments have been advised to monitor grant's expiration and liquidation dates and strictly comply with the period of performance requirements.	September 30, 2024	Jonas M. Paul- Director Department of Administrative Services <a href="mailto:jpaulckdas@gmail.com">jpaulckdas@gmail.com</a>  Renedgardo S. Merencillo- Financial/Accounting Advisor <a href="mailto:rsmerencillo@yahoo.com">rsmerencillo@yahoo.com</a>



**DEPARTMENT OF ADMINISTRATIVE SERVICES**  
**CHUUK STATE GOVERNMENT**  
**FEDERATED STATES OF MICRONESIA**

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**Jonas M. Paul**

Director

**Restmena S. Nonumwar**

Deputy Director

Summary Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2022

<b>Finding Number</b>	<b>Assistance Listings Number</b>	<b>Requirement</b>	<b>Status</b>
2021-001	N/A	Reconciliation of subsidiary to general ledger	Not corrected or resolved. See corrective action plan – Finding no. 2022-001
2021-002	N/A	Supporting information for land leases	Not corrected or resolved. See corrective action plan – Finding no. 2022-002
2021-003	15.875	Special tests and provisions - annual performance evaluation	Not corrected or resolved.