

*Compliance and Internal Control*

**State of Kosrae  
Federated States of Micronesia**

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



State of Kosrae  
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 Tulensa W. Palik  
Governor, State of Kosrae  
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 Kosrae (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 basic financial statements (collectively referred to as the “financial statements”), and have issued our report thereon dated May 3, 2024. Our report was qualified with respect to \$1,295,459 accounts receivable and \$1,949,771 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.

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 grants, and other matters did not include the Kosrae Port Authority, the Kosrae Utilities Authority, and the Kosrae Housing Authority, 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 those 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 item 2022-002 to be a material weakness.

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 items 2022-001 and 2022-003 to be significant deficiencies.

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

As part of obtaining reasonable assurance about whether the State'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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*

May 3, 2024



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

Honorable Tulensa W. Palik  
Governor, State of Kosrae  
Federated States of Micronesia:

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

#### ***Qualified Opinion on the Sole Major Federal Program***

We have audited the State of Kosrae (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 the State's sole major federal program for the year ended September 30, 2022. The State's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its sole major federal program for the year ended September 30, 2022.

#### ***Basis for Qualified Opinion on the Sole Major Federal Program***

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

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

### ***Matter Giving Rise to Qualified Opinion on the Sole Major Federal Program***

As described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding ALN 15.875 Economic, Social, and Political Development of the Territories as described in finding number 2022-004 for Equipment and Real Property Management.

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

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

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

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

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

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

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

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

## ***Other Matters***

The results of our auditing procedures disclosed 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 2022-005. Our opinion on the sole major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the State's response to the noncompliance 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.

## **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 item 2022-004 to be a material weakness.

*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 2022-005 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 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 basic financial statements. We issued our report thereon dated May 3, 2024, which contained a qualified opinion on those financial statements with respect to \$1,295,459 accounts receivable and \$1,949,771 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. Our opinions on the financial statements of the State's aggregate discretely presented component units, General Fund, Compact Trust Fund and aggregate remaining fund information were unmodified. 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, 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*

May 3, 2024

State of Kosrae  
Federated States of Micronesia

Summary Schedule of Expenditures of Federal Awards, by Grantor

Year Ended September 30, 2022

<b><u>Agency/Program</u></b>	<b><u>Expenditures</u></b>
U.S. Department of Agriculture	\$ 22,740
U.S. Department of the Interior	7,464,649
U.S. Department of Education	501,499
U.S. Department of Health and Human Services	<u>437,517</u>
 Grand Total	 <u>\$ 8,426,405</u>
 Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 8,767,221
Less:	
Foreign Assistance Fund expenditures included in General Government expenditures	 <u>( 340,816)</u>
	 <u>\$ 8,426,405</u>

State of Kosrae  
Federated States of Micronesia

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal ALN	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Programs:			
Cooperative Forestry Assistance	10.664		\$ 21,911
International Forestry Program	10.684		829
<b>U.S. DEPARTMENT OF AGRICULTURE TOTAL</b>			<b>\$ 22,740</b>
<b>U.S. DEPARTMENT OF THE INTERIOR:</b>			
Pass-Through From the FSM National Government:		A3	
Economic, Social and Political Development of the Territories:			
Compact of Free Association Sector Grants:			
Compact II Education Sector	15.875		\$ 2,806,874
Compact II Health Sector			2,582,694
Compact II Private Sector Development			86,867
Compact II Capacity Building			138,514
Compact II Environment			20,000
Compact II Infrastructure Sector			357,660
Supplemental Education Grant			777,576
Compact II Enhanced Reporting Accountability			179,395
			<u>6,949,580</u>
Technical Assistance:			
Public Auditor's office			5,170
COVID-19 Cares Act	15.875		461,479
Total ALN #15.875			<u>7,416,229</u>
Historic Preservation Fund Grants-In Aid	15.904		\$ 48,420
<b>U.S. DEPARTMENT OF THE INTERIOR TOTAL</b>			<b>\$ 7,464,649</b>
<b>U.S. DEPARTMENT OF EDUCATION:</b>			
Pass-Through From the FSM National Government:		A3	
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A		\$ 501,499
Total Special Education Cluster (IDEA) and			
<b>U.S. DEPARTMENT OF EDUCATION TOTAL</b>			<b>\$ 501,499</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-Through From the FSM National Government:		A3	
Public Health Emergency Preparedness	93.069		\$ 17,745
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		45,267
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		43,805
Maternal and Child Health Federal Consolidated Programs	93.110		(462)
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		16,092
Family Planning Services	93.217		5,464
Immunization Cooperative Agreements	93.268		58,834
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands and P.R.	93.377		43,565
Integrated Care for Kids Model	93.378		784
Opioid STR	93.788		36,082
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898		35,799
Block Grants for Community Mental Health Service	93.958		29,314
Block Grants for Prevention and Treatment of Substance Abuse	93.959		61,218
Maternal and Child Health Services Block Grant to the States	93.994		44,010
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL</b>			<b>\$ 437,517</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 8,426,405</b>

See accompanying notes to Schedule of Expenditures of Federal Awards.

State of Kosrae  
Federated States of Micronesia

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

**1. Scope**

The State is one of the four States of the Federated States of Micronesia. All significant operations of the State are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as the State'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 the State 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 the State, it is not intended to and does not present the financial positions or changes in financial positions of the State.

**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 the State 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, the State'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 and did not expend federal awards during the year ended September 30, 2022. Accordingly, the accompanying Schedule presents the federal award programs administered by the State, as defined above, for the year ended September 30, 2022.

State of Kosrae  
Federated States of Micronesia

Notes to Schedule of Expenditures of Federal Awards, continued

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

***Matching Costs***

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

***Indirect Cost Allocation***

The State did not receive any indirect cost allocation. The State 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.

State of Kosrae  
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?

     **Yes**       X  **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 the sole major federal program:

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:**

**Assistance Listing Number**

15.875

**Name of Federal Program**

Economic, Social, and Political Development of the Territories

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

\$750,000

Auditee qualified as low-risk auditee?

     **Yes**       X  **No**

State of Kosrae  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

**Section II - Financial Statement Findings**

<b>Reference Number</b>		<b>Findings</b>
2022-001		Capital Asset (Equipment)
2022-002		Accounts Receivable/Unearned Revenue
2022-003		Authorization of Journal Vouchers

**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	Equipment and Real Property Management	\$ -
2022-005	15.875	Special Tests and Provisions – Annual Performance Reviews	16,887

State of Kosrae  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

**Finding No. 2022-001 – Capital Assets (Equipment)**

Criteria:

Government Accounting Standards Board Codification 1400 requires capital assets be recorded at their correct cost, in the correct accounting period, and at the proper depreciation.

Condition:

We found the capital asset opening balances to have a variance of \$35,846 as compared to the prior year's audited ending balance. In addition, we determined there was no depreciation charged on several asset items in the current year in the amount of \$32,436. In our test of capital asset additions, three buses purchased during the year were not recorded at the correct cost, resulting in a misstatement of \$19,013.

Cause:

The State lacks proper controls over its capitalization process and depreciation policy.

Effect:

Errors identified have been resolved through the audit process.

Recommendation:

Responsible personnel should perform periodic reviews over all additions and disposals to capital assets, as well as over the calculation of depreciation expense.

Views of Responsible Officials:

Management agrees with the finding. Refer to separate Corrective Action Plan.



State of Kosrae  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

**Finding No. 2022-002 – Accounts Receivable/Unearned Revenue**

Criteria:

Government Accounting Standards Board 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 the FSM National Government, which is the primary recipient of the grants pertaining to these funds. Further, they also did not reconcile their receivable/unearned revenue balances with the FSM National Government for other governmental 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 \$1,295,459 accounts receivable and \$1,949,771 unearned revenue balances with the Federated States of Micronesia National Government.

Cause:

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

Effect:

The reasonableness of closing balances of the accounts receivables/unearned revenue balances with the 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:

Responsible personnel should reconcile accounts receivable/unearned revenue balances with the FSM National Government for fiscal year FY 2022 and should implement controls over regular reconciliations of balances with the FSM National Government.

Views of Responsible Officials:

Management agrees with the finding. Refer to separate Corrective Action Plan.

State of Kosrae  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

**Finding No. 2022-003 – Authorization of Journal Vouchers**

Criteria:

The State'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 should be reviewed and approved.

Condition:

We observed that journal vouchers had no evidence of review and approval evidenced by a signature of a supervisor in situations where the Chief Accountant was absent.

Cause:

The State lacks controls over the authorization of journal vouchers. No deputy signatory or authorized signatory is assigned to review and approve journal vouchers during absence of the Chief Accountant.

Effect:

There is potential for erroneous entries to be recorded in the system.

Recommendation:

Responsible personnel should establish a chain of command to be implemented during the absence of anyone in the chain relative to the authorization of journal vouchers.

Views of Responsible Officials:

Management agrees with the finding. Refer to separate Corrective Action Plan.

State of Kosrae  
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  
Federal Award No.: Various Compact Sector Grants  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria:

In accordance with applicable equipment and real property management requirements, a physical inventory of property acquired in whole or in part under a Federal award must be taken, and the results reconciled with the property records, at least once every two years, until disposition takes place. Such property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of Federal participation in the cost of the property, location, and use and condition of the property.

Condition:

The State did not perform the required physical inventory of property acquired in whole or in part under a Federal award within the past three years, and property records do not identify the required information for all program-funded assets. We are unable to quantify the extent of noncompliance. However, the table below summarizes the capital outlays over the past 3 years.

	2022	2021	2020	
	Purchases	Purchases	Purchases	Total
\$	808,892	1,115,072	127,843	\$2,051,807

Cause:

The State has weak internal controls over the receiving, recording, reviewing and tagging of capital assets by the supply officer prior to releasing the capital asset/equipment to a department.

Effect:

The State is in noncompliance with applicable equipment management requirements. No questioned cost is presented as we are unable to quantify the extent of noncompliance. However, the cumulative capital outlays over the past three years exceed the program's FY2022 materiality level.

State of Kosrae  
Federated States of Micronesia

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  
Federal Award No.: Various Compact Sector Grants  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Recommendation:

Responsible personnel should perform the required physical inventory at least once every two years and reconcile results with the property records, which should identify the required asset details in accordance with applicable equipment and real property management requirements.

Identification as a Repeat Finding: Finding No. 2021-003

Views of Responsible Officials:

Management's Corrective Action Plan provides a detailed rationale for disagreement with this finding.

Auditor Response:

Physical inventory procedures were performed and completed by KSG in 2023, which is after the fiscal year ended September 30, 2022. Also, resolution with the cognizant grantor agency did not occur as of September 30, 2022.

State of Kosrae  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

**Finding No.:** 2022-005

Pass-Through Entity: Federated States of Micronesia National Government  
Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: Various Compact Sector Grants  
Area: Special Tests and Provisions – Annual Performance Reviews  
Questioned Costs: \$16,887

Criteria:

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

Condition:

For 1 (or 4%) of 25 employees tested, the annual performance evaluation for fiscal year 2022 was incomplete.

<u>Sector Grant</u>	<u>Emp_Num</u>	<u>Acct_Num</u>	<u>FY22 Paid Salary</u>
D21AF00010	64479	15-60-66-15130-20-8021	\$16,887

Cause:

The State did not effectively enforce controls over compliance with performing annual performance evaluations as stipulated in the grant awards.

Effect:

The State is in noncompliance with the requirement, and total questioned costs of \$16,887 are reported because the projected questioned costs exceed the threshold.

Recommendation:

Responsible personnel should implement procedures to periodically monitor employees funded under the Program, perform the required annual performance evaluations, and maintain resulting reports on file.

State of Kosrae  
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

**Finding No.: 2022-005, continued**

Pass-Through Entity: Federated States of Micronesia National Government  
Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: Various Compact Sector Grants  
Area: Special Tests and Provisions – Annual Performance Reviews  
Questioned Costs: \$16,887

Views of Responsible Officials:

Management's Corrective Action Plan provides a detailed rationale for disagreement with this finding.

Auditor Response:

The annual performance evaluation provided for the selected employee did not appear complete as required by the program.



**KOSRAE STATE GOVERNMENT**  
DEPARTMENT OF ADMINISTRATION  
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FAX: (691) 370-2753 / email: kosfinance@mail.fm

## **CORRECTIVE ACTION PLAN**

### **Finding No. 2022-001**

#### **Area: Capital Assets (Equipment)**

**Views of Auditee and Planned Corrective Action:** Careless miscalculation of depreciation expenses and others has already been corrected during the audit. We have already implemented a corrective measure, which requires the supply officer to submit his quarterly report to the financial advisor for his review and then to the Director of Department of Administration and Finance for his approval.

**Anticipated Completion Date:** Ongoing

**Name of Contact Person:** Ms. Lona Lyndon Esau, Administrator  
Office of Finance, Department of Administration and Finance  
Email: alomalya.dofa@gmail.com

### **Finding No. 2022-002**

#### **Area:-Accounts Receivable/Unearned Revenue**

**Views of Auditee and Planned Corrective Action:** we will reconcile our receivable and unearned revenue balances with FSM National Government once it completes its reconciliation work with federal grantor agencies.

**Anticipated Completion Date:** Ongoing

**Name of Contact Person:** Ms. Lona Lyndon Esau, Administrator  
Office of Finance, Department of Administration and Finance  
Email: alomalya.dofa@gmail.com

## CORRECTIVE ACTION PLAN, CONTINUED

### **Finding No. 2022-003**

#### **Area:-Authorization of Journal Vouchers**

**Views of Auditee and Planned Corrective Action:** We have already implemented a corrective measure, which requires a preparer of journal voucher to submit his/her journal voucher to the financial advisor for his review and then to the administrator for approval. The Director of Department of Administration and Finance should approve a journal voucher for write-off of receivables.

**Anticipated Completion Date:** Ongoing

**Name of Contact Person:** Ms. Lona Lyndon Esau, Administrator  
Office of Finance, Department of Administration and Finance  
Email: alomalya.dofa@gmail.com

### **Finding No.:2022-004**

#### **Area:- Equipment and Real Property Management**

**Views of Auditee and Planned Corrective Action:** As explained several times, Finding No. 2021-003 (required physical inventory of capital assets) was already resolved with the cognizant grantor agency, Department of the Interior – Office of Insular Affairs on September 12, 2023. Therefore, no further action is considered necessary.

**Anticipated Completion Date:** Ongoing

**Name of Contact Person:** Ms. Lona Lyndon Esau, Administrator  
Office of Finance, Department of Administration and Finance  
Email: alomalya.dofa@gmail.com

### **Finding No.:2022-005**

#### **Area:- Special Tests and Provisions – Annual Performance Reviews**

**Views of Auditee and Planned Corrective Action:** We do not agree with the finding as the annual evaluation was performed by the teacher and his supervisor. We understand that individual evaluation points did not add up to the stated total point in the evaluation form because page 3 was blank, and the addition was incorrect.

**Anticipated Completion Date:** Ongoing

**Name of Contact Person:** Ms. Lona Lyndon Esau, Administrator  
Office of Finance, Department of Administration and Finance  
Email: alomalya.dofa@gmail.com

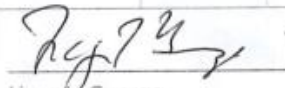




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Summary Schedule of Prior Audit Findings and Questioned Costs  
Year Ended September 30, 2022

Finding No.	CFDA No.	Requirement	Questioned Cost	Status
2021-001	-		\$0	Ongoing as of the reporting date.  However, management decision letter was received on August 03, 2023 from the cognizant grantor agency, stating that the finding has been resolved and closed.
2021-002	15.875	Allowable Costs/Cost Principles	\$219,936	Ongoing as of the reporting date.  However, management decision letter was received on August 03, 2023 from the cognizant grantor agency, stating that the finding has been resolved and closed.
2021-003	15.875	Equipment and Real Property Management	\$0	Ongoing as of the reporting date.  However, email was received on September 12, 2023 from a cognizant grantor agency specialist, stating that the provided documents were sufficient to resolve the finding.

  
Lipar C. George  
Director, Dept. of Finance and Admin.  
Kosrae State Gov't