



**BURGER · COMER · & ASSOCIATES**  
**CERTIFIED PUBLIC ACCOUNTANTS**

November 6, 2025

Honorable Stevenson A. Joseph  
Governor, State of Pohnpei  
Federated States of Micronesia

Dear Governor Joseph:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the State of Pohnpei (the State) for the year ended September 30, 2023 (the "Financial Statements"), in accordance with auditing standards generally accepted in the United States of America (generally accepted auditing standards) and have issued our report thereon dated November 6, 2025, which contained a qualified opinion with respect to GASB 70 noncompliance related to a lack of recognition for a liability associated with a guaranteed debt obligation.

The comments in this letter will assist you in fulfilling your obligations in providing oversight of financial reporting and disclosure processes for which the management of the State is responsible.

This letter is intended solely for the information and use of the State's management, the Office of the Governor, the Office of the National Public Auditor, federal award agencies, pass-through entities and others within the State and 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.

We extend our gratitude to the staff and management of the State for their cooperation and assistance during this engagement.

Respectfully,

A handwritten signature in dark ink that reads "Burger Comer &amp; Associates".

Burger Comer Associates, LLC

cc: The Management of the State of Pohnpei

## **Our Responsibility Under Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards**

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 audit requirements of the *Title 2 U.S Code of Federal Regulations part 200, uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) has been described in our initial engagement contract dated January 12, 2023. As described in the contract, the objectives of an audit conducted in accordance with the auditing standards and the Uniform Guidance are:

- To express an opinion on the fairness of the State’s financial statements and the accompanying supplementary information, in relation to the financial statements as a whole, as of and for the year ended September 30, 2023, in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles), in all material respects, and to perform specified procedures on the required supplementary information for the year ended September 30, 2023;
- To express an opinion on whether the supplementary information that accompanies the financial statements, including the Schedule of Expenditures of Federal Awards, is fairly stated, in all material respects, in relation to the financial statements as a whole;
- To report on the State’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2023, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and
- To express an opinion on the State’s compliance with requirements applicable to each major program and report on the State’s internal control over compliance in accordance with the Uniform Guidance.

Our responsibilities under the Auditing Standards and the Uniform Guidance including forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we consider internal control over financial reporting relevant to the State’s preparation and fair presentation of the financial statements 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 State’s internal control over financial reporting.

## **Our Responsibility Under Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards, continued**

Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the State's internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance. Our audit does not, however, provide a legal determination of the State's compliance with those requirements.

### **Significant Audit Matters**

#### ***Qualitative Aspects of Accounting Practices***

Management of the State is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the State are described in Note 1 to the financial statements. Apart from the implementation of new GASB Statements highlighted below, no new accounting policies were adopted, and the application of existing policies was not changed during 2023.

We noted no transactions entered into by the State during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

During the year ending September 30, 2023, the State implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
- GASB Statement No. 96, *Subscription – Based Information Technology Arrangements*.
- Certain required provisions of GASB Statement No. 99, *Omnibus 2022*. Particularly:
  - Provisions relating to the clarification of GASB Statement No. 87.
  - Provisions relating to the clarification of GASB Statement No. 94.
  - Provisions relating to the clarification of GASB Statement No. 96.
  - Provisions relating to the modification of accounting and reporting guidance for the termination of hedges as established in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The implementation of these statements did not have a material effect on the financial statements.

## **Significant Audit Matters, continued**

### ***Qualitative Aspects of Accounting Practices, continued:***

Management of the State is currently evaluating the future impact of adopting the following upcoming GASB statements:

- Certain provisions in GASB Statement No. 99, *Omnibus 2022*. Particularly those relating to:
  - Modifications to the guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.
  - Guidance on the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*.
- GASB Statement No. 101, *Compensated Absences*.
- GASB Statement No. 102, *Certain Risk Disclosures*.

We have evaluated the significant qualitative aspects of the State's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and constantly applied by management.

## **Management Judgement and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgements are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the State's financial statements include management's estimates of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2023, we are not aware of any significant changes in accounting estimates or in management's judgements relating to such estimates.

The financial statement disclosures are neutral, consistent, and clear.

## **Audit Adjustments and Reclassifications**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As a result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in aggregate, would have a significant effect on the State's financial reporting process.

Such adjustments and reclassifications, listed in **Appendix A** and **B** to **Attachment II**, were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period and are reflected in the 2023 financial statements.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level. **Appendix C to Attachment II** includes a listing of uncorrected misstatements that were presented to management during our audit. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 6, 2025.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the State's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Basis for Qualified Opinion on Governmental Activities**

As more fully described in Note 12 to the financial statements, the State has not recorded a liability for a nonexchange financial guarantee for discretely presented component unit debt. In our opinion, accounting principles generally accepted in the United States of America require that a liability be recognized when the State will be required to make a payment on the guarantee. The effects of this departure on the governmental activities of the State are not reasonably determinable.

### **Other Audit Findings or Issues**

We discussed a variety of matters, including certain applications of accounting principles and auditing standards, with management; however, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. We have identified various significant deficiencies in the State's internal control during our audit which are included in our separately issued report on the State's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*.

### **Control Related Matters**

We have identified, and included in **Attachment I**, certain deficiencies and other matters related to the State's internal control over financial reporting as of September 30, 2023, that we wish to bring to your attention.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached **Attachment II** and should be read in conjunction with this report.

### **Non-Audit Services**

We were involved with the preparation of the State's financial statements. We have documented our assessment of management's ability to effectively oversee the non-audit or non-attest services that were performed. The audited entity has designated an individual to oversee the non-audit or non-attest services. Accordingly, we noted no issues with respect to the State's designated individual regarding their: knowledge, skills, or ability to oversee the non-audit or non-attest services. Because our involvement with the preparation of the State's financial statement is a significant threat to our independence under *Government Auditing Standards*, we believe the following safeguards have reduced this threat to an acceptable level:

- As a component of our engagement quality control review, the financial statements were reviewed by senior level BCA personnel not otherwise involved in the audit.
- As a component of our engagement quality control review, the financial statements were reviewed by a BCA partner not otherwise involved in the audit.
- All adjusting entries that were proposed by BCA were first reviewed and approved by the management of the State.
- The financial statements and all its components were provided to management of the State for review and approval.
- The financial statements are based on the State's trial balance, derived from accounting records maintained by the State, and the State has certified representations to its accuracy and completeness.

## **Restriction on Use**

This information is intended solely for the information and use of the Governor and management of the State and is not intended to be, and should not be, used by anyone other than these specified parties.

## **Attachment I—DEFICIENCIES AND OTHER MATTERS**

We identified the following deficiencies and other matters involving the State's internal control over financial reporting as of September 30, 2023:

### **No. 1 – Fundware System Interruption**

**Comment:** The State's Fundware accounting system experienced a technical outage from May 9 to May 24, 2023 (approximately 14 days, including twelve working days). During this period, critical financial processes such as payroll, accounts payable, cash collections, and receipts had to be handled manually by the Treasury. Transactions were later entered into the system once it was restored. Audit procedures were adjusted to scrutinize the completeness of the general ledger during and after this downtime. In reviewing the records, it was noted that duplicate check numbers were issued across several of the State's bank accounts. Upon investigation, it was confirmed that although check numbers were reused, each instance pertained to a legitimate and distinct payment (i.e., no actual duplicate payment occurred). However, the occurrence of duplicate check numbers indicates a weakness in internal controls. Specifically, the audit identified the following instances of duplicate checks:

- **General Fund checking account:** fifty-one (51) duplicate check numbers were observed in May 2023 and September 2023.
- **Sector (grant) Fund checking account:** eleven (11) duplicate check numbers were observed in May 2023 and September 2023.
- **Payroll account:** twenty-two (22) duplicate check numbers were issued for payroll allotment checks in November 2022 and January 2023, and an additional twenty-seven (27) duplicate check numbers were issued for employee payroll checks in the same two months.

**Recommendation:** The State should strengthen controls over check issuance to prevent duplicate check numbers. All checks should be numbered sequentially with no gaps or repeats. Management should implement a routine review of check logs or registers to promptly identify any breaks in sequence or reused check numbers. In addition, personnel who prepare and review bank reconciliations must verify the completeness and continuity of check sequences as part of each reconciliation. Any irregularities in sequencing should be investigated and resolved immediately. By enforcing strict sequential numbering and review, the State will improve the accuracy of its disbursement records and reduce the risk of errors in cash management.

## **No. 2 – Bank Reconciliation Process**

**Comment:** An examination of the State’s bank reconciliation process revealed several issues in how reconciling items are handled. The State’s Treasury staff maintain a section in the monthly bank reconciliation schedules for items identified during reconciliation that have not been posted to the general ledger. Our review and inquiries noted the following:

- Some reconciling items were not recorded in the general ledger because of missing supporting documentation; these items were later corrected by management.
- Certain items labeled as “bank errors” on the reconciliation were in fact traceable to the bank statements and the general ledger without discrepancy, contrary to the State’s notation. Management subsequently removed these misclassified items from the reconciliation.
- A number of stale-dated outstanding checks and unreleased checks (checks prepared but not disbursed) as of September 30, 2023 had not been investigated or adjusted during the reconciliation. These were later adjusted by management.
- Furthermore, we conducted a focused review of outstanding checks and noted:
  - **Incomplete documentation for obligations:** Two outstanding checks were linked to obligation documents that were not fully completed or approved.
  - **Stale dated check without support:** One particularly stale check (approximately \$62,000) was carried on the outstanding list without supporting documentation. Inquiry with Treasury staff indicated that the system showed this check was voided in March 2024, but no explanation was available for the voided check. We confirmed through bank statements (up to March 2024) that the check never cleared the bank. This check did not have a material impact on the General Fund cash balance as of 9/30/2023, but the lack of documentation and unexplained voiding is a concern regarding the adequacy of the bank reconciliation review and monitoring process.

**Recommendation:** The State should improve its bank reconciliation procedures to ensure all reconciling items are promptly addressed and properly documented. Key steps include:

- **Thorough Review:** Each monthly bank reconciliation schedule must be carefully reviewed by management. Before sign-off, verify that all entries (deposits in transit, outstanding checks, errors, etc.) are valid and have appropriate support. Any item lacking documentation should be investigated immediately, with adjustments posted to the general ledger as needed.
- **Year-End Cleanup:** As part of the year-end closing process, identify and adjust for stale, voided, or unreleased checks. Old outstanding checks that will not be cashed should be voided or written off in the general ledger to prevent an understatement of cash. Establish a formal policy for the maximum length a check can remain outstanding before action is taken (e.g., 6 months) and adhere to it.
- **Continuous Monitoring:** Implement a process to continuously monitor long-outstanding checks, wire transfers, and deposits. A designated staff member should routinely follow up on items outstanding for an extended period and clear them as appropriate.
- **Policy and Training:** Provide guidance to accounting staff on handling common reconciliation issues. Ensure that what might be labeled as “bank errors” truly are bank errors, and train staff to obtain needed documentation so that legitimate transactions are recorded timely rather than left as open reconciling items.



## **No. 2 – Bank Reconciliation Process, continued**

### **Recommendation, continued:**

- **Final Audit Preparation:** Before finalizing the trial balance and providing schedules for audit, investigate any significant or unusual reconciliation items and make necessary correcting entries. By doing so, the State will present auditors with reconciled balances that accurately reflect all known transactions.

## **No. 3 – Accounts Receivable/Unearned Revenue Accruals (Fund 21)**

**Comment:** Audit procedures for accounts receivable noted that no year-end accrual adjustments were recorded for Fund 21. Such was subsequently corrected through audit adjustment. Fund 21 is associated with certain federal funds, and its receivables or unearned revenues should be reviewed for accruals at year-end.

**Recommendation:** The State's management should annually review and reconcile Fund 21 accounts receivable or unearned revenue with the records of the underlying agencies and grantors. Once reconciliations are completed and accurate balances are determined, management should record any necessary accrual adjustments at year-end with corresponding reversal entries in the new fiscal year, if applicable. Going forward, implementing an annual accrual review for all significant grant funds will help capture receivables, revenues, and unearned revenues in the correct period. Each year-end the State should consider: (1) confirming receivable and unearned revenue balances with counterparties or subsidiary ledgers, (2) post accrual entries for revenue earned (or adjust for any amounts not earned), and (3) reverse those entries in the subsequent period as appropriate.

## **No. 4 – Cash Disbursement Testing (General and Nonmajor Funds)**

**Comment:** Tests of cash disbursements in both the General Fund and selected Nonmajor Funds uncovered documentation and approval deficiencies. The specific issues noted were:

- **General Fund Disbursements:** Out of a sample of 29 General Fund disbursements tested, 5 transactions lacked complete supporting documentation (such as missing check stubs, invoices, or requisition forms). In addition, one transaction's accounts payable voucher did not have the authorizing signature of the Accounts Payable Manager, as required, and another transaction had a mismatch between the obligation number on the supporting documents and the obligation number recorded in the general ledger. These errors suggest lapses in following standard payment procedures and record-keeping.
- **Nonmajor Funds Disbursements:** Out of 56 disbursement transactions sampled from various Nonmajor Governmental Funds, 4 transactions had missing or unavailable supporting documents. Furthermore, 2 transactions showed a discrepancy between the check number recorded in the check register and the check number on the bank statement. (These two instances correspond to the duplicate check number issue discussed in **Comment No. 1.**) Although no duplicate payments were actually made, the inconsistency in check numbers was not detected during the reconciliation process, increasing the risk that errors or irregularities could go unnoticed.

#### **No. 4 – Cash Disbursement Testing (General and Nonmajor Funds), continued**

##### **Comment, continued:**

These findings point to weaknesses in the State's disbursement controls, including inadequate document retention, insufficient review for completeness of payment packets, and lack of cross-checks for data consistency. Notably, some of the documentation issues may have been exacerbated by operational disruptions, for example, we understand that the State's Treasury office relocation during the year may have contributed to difficulties in locating certain records.

**Recommendation:** The State should strengthen internal controls over cash disbursements to ensure that all payments are properly supported and authorized. We recommend the following actions:

- **Complete Documentation and Approval Verification:** Require a thorough review of each disbursement packet (requisition, purchase order, invoice, receiving report, etc.) by Accounts Payable personnel to confirm that all necessary supporting documents and approvals are present before a check is issued. If any documentation is missing, the payment should be put on hold until the required support is obtained. Enforce the policy that all payment vouchers carry the signatures of the responsible officials (e.g., the Accounts Payable Manager, fund certification, department heads, as applicable). The Accounts Payable department should have a checklist or control in place that flag vouchers lacking required signatures so they can be corrected prior to disbursement.
- **Check Sequence Monitoring:** Incorporate a routine procedure to review the check register for any breaks in check number sequence or other anomalies before month-end closing. The staff preparing bank reconciliations should verify that check numbers in the ledger align with bank statement entries, which would catch issues like the mismatched check numbers noted in the Nonmajor Funds sample.
- **Post-Transaction Monitoring:** Establish a periodic internal audit of filed disbursement records. For example, on a quarterly basis, randomly select a sample of payments from earlier in the year and verify that each has a complete set of supporting documents, proper approvals, and correct general ledger coding. This post-transaction review can be performed by finance staff not involved in day-to-day processing. Any deficiencies found should be reported and remedied. We acknowledge that the temporary disarray caused by the Treasury office's relocation may have contributed to some missing documents; however, implementing this monitoring control should help identify and correct such gaps going forward.

#### **No. 5 – Lease Management and Documentation**

**Comment:** The State of Pohnpei administers a significant number of public land leases. As of September 30, 2023, there were approximately 162 commercial land leases in total (including both active leases and leases in inactive or lapsed status). Audit procedures and inquiries identified several issues in the management and documentation of these leases:

Out of the 162 leases, 81 leases were within our audit scope for detailed review. The remaining 81 leases were not reviewed in depth for various reasons. Many of those not reviewed either expired and continued on a month-to-month basis without formal renewal, were short-term or pending renewal, or lacked available documentation (e.g., an executed copy of the lease agreement).

## **No. 5 – Lease Management and Documentation**

### **Comment, continued:**

Among the 81 active leases examined, 33 leases (all originally executed in prior years) were missing the required signature of a Court of Lands judge on the lease agreements. Additionally, 4 of these leases did not have the signature of the State's Governor, which is also required for proper execution. These signature omissions call into question the formal authorization of those lease contracts.

More broadly, we observed areas of lease administration that warrant improvement:

- **Timing discrepancies:** Some lease agreements showed significant gaps between the date of the last required signature (execution date) and the start date of the lease term or its non-cancellable period. Such delays suggest that leases may not have been finalized in a timely manner, which could lead to legal ambiguities.
- **Lapsed leases with continuing payments:** In certain cases, leases had expired (the fixed term had lapsed) yet the State continued to receive rent payments without a formally executed renewal or extension in place. We could not readily determine the exact number of leases in this situation. Holdover provisions exist and are allowable in the State's land lease agreements, however they should be subject to enhanced administrative oversight and the outstanding number of all leases under holdover status should be known and continuously tracked in a lease registry. The State's (lessor) consent to allowing a lease to be holdover status should be clearly documented in a lessees file.
- **Outdated lessee information:** Some leases have not been updated to reflect changes in the lessee. For example, there were cases where the original lessee had passed away, and members of the decedent's family or estate were making the rent payments. However, no official lease assignment or amendment was executed to transfer the lease to the new payor/responsible party. This lack of updated documentation could create disputes or difficulties in enforcement.

These findings indicate that the State's lease records and controls are not fully adequate. Missing authorizations and incomplete documentation can undermine the enforceability of lease agreements and complicate the State's ability to account for and manage lease revenues in compliance with accounting standards (e.g., GASB's standards on leases).

**Recommendation:** The State should take steps to strengthen oversight and record-keeping for land leases:

- **Ensure Proper Authorization:** All new leases and lease renewals must be executed in accordance with legal requirements. This means obtaining all necessary signatures, including the Governor's approval and the Court of Lands judge's certification, on each lease agreement. The execution process should be reviewed for any lease currently lacking such signatures, and corrective action (such as re-execution or ratification of the lease) should be taken to legitimize those agreements.

## **No. 5 – Lease Management and Documentation**

### **Recommendation, continued:**

- **Maintain Complete Lease Documentation:** The State should ensure that every lease arrangement is supported by a written lease agreement. For any active lease where the original document is missing, efforts should be made to locate it; if it cannot be found, the State should consider re-documenting the agreement with the lessee. In situations where a lease term has expired but the lessee remains in possession (month-to-month holdovers), the State should either execute a formal extension/renewal or document the interim arrangement in writing. If external circumstances (such as pending legal issues or land disputes) delay a renewal, the responsible office should record an explanatory note in a master lease registry. This registry should be updated at least quarterly to track the status of each lease, including notes on any delays or special conditions.
- **Update Lessee Information:** Implement a procedure to update lease agreements when there is a change in the party responsible for lease payments. For example, if an original lessee is deceased and an heir or estate representative continues the payments, an official lease assignment or amendment should be executed to reflect the new responsible party. Keeping lessee information up-to-date in the documentation will protect the State's interests and clarify rights and obligations.
- **Improve Lease Accounting and Monitoring:** The State should consider utilizing specialized lease management software or tools to better track lease agreements and related financial information. A modern system, in line with **GASB Codification Section L20** would facilitate compliance by providing automation to the calculation and monitoring of lease receivables, deferred inflows, and lease revenue. If acquiring new software is not immediately feasible, the State should at least maintain comprehensive internal spreadsheets or schedules on an annual basis that detail: (1) all payments received for each lease (by lessee, amount, and date, and land parcel); (2) any receivables or outstanding balances, including noting if any special payment agreements or temporary waivers are in place; and (3) the current payment status of each lease (e.g., up-to-date, in arrears, under payment plan). Management should regularly review these schedules to ensure completeness and accuracy.

Improving controls in these areas may help the State enhance both the financial reporting accuracy for leases and the legal enforceability of its lease contracts. Strengthening lease management should also help the State comply with applicable accounting standards and improve oversight of public land use.

## **No. 6 – Capital Assets: Acquisition Date and Receiving Procedures**

**Comment:** The audit revealed that the State's current practice for recording capital asset acquisitions does not always align with the actual receipt or in-service date of the assets. Specifically, when a new capital asset is recorded in the accounting system, the State uses the purchase order (PO) date as the asset's acquisition date, rather than the date the asset was received and put into service. This practice can lead to two main issues:

- **Depreciation Misstatements:** Using the PO date (which could be earlier than the receipt date) may cause depreciation to start earlier than it should. Over time, this could result in misstatements of depreciation expense and accumulated depreciation balances, since the asset's useful life in the records would not match the actual period, it was in service.

## **No. 6 – Capital Assets: Acquisition Date and Receiving Procedures, continued**

### **Comment, continued:**

- **Timing Differences in Asset Recognition:** There may be a mismatch between when assets are recorded on the books and when the State actually gains control of them. An asset might be ordered (PO date) in one fiscal period but delivered in another. Recording it as of the PO date could mean the asset (and related depreciation) is recognized in the wrong period, affecting the accuracy of financial reporting for capital assets.

Additionally, we noted that communication between departments is an issue as various allottee departments do not consistently notify the Finance Department in a timely manner when they receive capital assets that were ordered. Without prompt notification, Finance may be unaware that an asset is placed in service, further contributing to delays or errors in recording the correct in-service date.

**Recommendation:** The State should revise its capital asset accounting policies to record assets based on the actual date of receipt or the date the asset is placed into service, rather than the purchase order date. Implementing this change will require:

- **Enhanced Interdepartmental Coordination:** The Procurement Office and the receiving departments (allottees) must promptly communicate with the Finance/Accounting Department when assets are delivered. One approach could be requiring a “received date” field on purchase orders or asset acquisition forms that the receiving department must fill in and return to Finance as soon as the asset is physically received and accepted.
- **System or Process Modifications:** If the current asset management system is not flexible enough to use a received date, consider modifications or manual procedures at year-end. For instance, Finance staff could adjust the recorded acquisition dates of major assets to reflect the in-service date before finalizing depreciation calculations. Over the longer term, the State may evaluate upgrading its asset management system to better accommodate these needs.
- **Training and Policy Communication:** Clearly communicate to all departments the importance of recording accurate in-service dates. Departments should understand that recording a capital asset is not complete until Finance knows the item is received and operational. Providing training or written guidelines can help ensure that those responsible for asset management follow the new procedures.

By using the actual receipt date as the capitalization date, the State will improve the accuracy of its financial statements ensuring depreciation starts when the asset is actually in use and maintain better control over its capital asset inventory. This change will also bring the State into closer alignment with accounting best practices and standards for asset management.

### **No. 7 – Capital Assets: Donated Assets Documentation**

**Comment:** During the audit, we found that the State lacked proper documentation for a donated capital asset (an ambulance) that was recorded in the current fiscal year. Specifically, the State capitalized a donated ambulance at an estimated value of \$47,000, but there was no supporting documentation to substantiate who donated the asset, the date of the donation, or how the \$47,000 value was determined. This situation highlights a control gap because GASB Statement No. 33 – *Accounting and Financial Reporting for Nonexchange Transactions* requires that donated capital assets be recorded at their fair value as of the date of donation. Proper accounting for donated assets necessitates identifying the donation timely, obtaining or estimating the fair market value at receipt (often through an appraisal or documented market evidence), and retaining documentation such as donor letters or agreements. The absence of these procedures can lead to incorrect asset values on the books and lack of audit trail for how those values were derived. Moreover, not maintaining records of donor and date can complicate compliance with any donor-imposed restrictions or acknowledgments.

**Recommendation:** The State should strengthen its procedures for receiving and recording donated assets to ensure full documentation and appropriate valuation. The improved process should include:

- **Formal Acceptance and Approval:** Implement a formal donated asset intake form or checklist that must be completed whenever the State receives a donated property (vehicle, equipment, etc.). This form should capture the donor's name and contact information, the date of donation, a description of the asset, and the intended use or any restrictions associated with the donation. It should be reviewed and approved by the relevant department head and forwarded to Finance.
- **Fair Value Determination:** Establish a method for determining the fair market value of donated assets at the time of receipt. Depending on the asset, this could involve obtaining an independent appraisal, using published price guides or market values for similar assets, or documentation from the donor on the asset's historical cost or value. The basis for the valuation should be documented (e.g., an appraisal report or comparable sales data) and retained in the asset records.
- **Documentation Retention:** Require departments to maintain and submit all supporting documentation for donated assets to the Finance Department. This includes: the donation letter or transfer agreement from the donor, any valuation reports or price estimates obtained, and evidence of the asset's receipt (such as a signed delivery receipt or condition report upon delivery). These documents should be filed with the capital asset register as proof of how the asset was recognized and valued.
- **Training and Awareness:** Provide guidance or training to department managers and administrative staff about the procedures for handling donated assets. Emphasize that donations must be treated with the same level of documentation and control as purchased assets. Departments should understand that without proper paperwork, Finance will not record the donated asset. Periodic reminders (for example, at year-end or during budget meetings) could help keep this requirement salient.

By implementing these measures, the State will ensure that all donated assets are accurately recorded at fair value in compliance with GASB standards and that a clear audit trail exists for each donated item. This will improve financial reporting and accountability for gifts and contributions of capital assets.

## **No. 8 – General Fund Payroll Testing**

**Comment:** During our substantive testing of General Fund payroll transactions, we noted several instances where required supporting documentation was incomplete, inconsistent, or not properly authorized. Specifically:

- **Personnel Action Forms (PAFs):** Eighteen (18) of fifty-two (52) PAFs did not include required leave accrual information. In addition, one (1) of these PAFs lacked the Budget Officer's certification of fund availability. We were advised that fund availability had been reviewed; however, the signature was omitted due to oversight.
- **Timekeeping Records:** For eighteen (18) employees, timekeeping documentation was incomplete or did not reconcile. Issues noted included missing employee timecards, unclear or illegible timekeeping records, and master timesheet hours that did not agree to the underlying timecards.
- **Leave Authorization:** For eight (8) employees, we identified issues related to leave approval and compensation, including leave recorded or paid without documented approval, compensatory leave exceeding the amount authorized, leave credited despite insufficient or negative accrued leave balances, and approved leave paid as regular hours.

These conditions reflect weaknesses in the review, authorization, and retention of payroll-related documentation. Inconsistent timekeeping practices and incomplete personnel records increase the risk of payroll errors, improper or unsupported payments, and misclassification of labor costs.

**Recommendation:** We recommend that management strengthen internal controls over personnel actions, timekeeping, and leave administration. At a minimum:

- Require that all PAFs be fully completed including leave accrual data and all required approvals prior to processing any personnel action.
- Ensure all departments and divisions follow consistent timekeeping procedures and maintain complete, legible, and reconcilable timecards to support hours reported on master timesheets.
- Reinforce supervisory review and approval of all leave requests and implement controls preventing the payment or posting of unapproved leave or leave taken in excess of available balances.
- Establish periodic monitoring by the Personnel and Labor Office, Budget Office, and Payroll Division to confirm that payroll documentation is complete, accurate, and properly authorized.

Implementation of these measures may help ensure the accuracy and completeness of payroll records, promote compliance with established personnel policies, and reduce the risk of unauthorized or erroneous payroll disbursements.

### **No. 9 – Payroll System Controls: Adding New Employees**

**Comment:** The State’s payroll system lacks adequate application controls to prevent or detect unauthorized additions of new employees. Under the current design, there is no automated mechanism that limits who can create a new employee record or that requires an independent review/approval of new entries in the system. This means, in theory, a user with access to the payroll module could add a fictitious or ineligible person to the payroll without proper oversight. Such a control weakness elevates the risk of payroll fraud (e.g., “ghost employees”) and payroll errors, as it relies solely on manual procedures to catch improper additions.

**Recommendation:** The State should revise its payroll system procedures and permissions to ensure that only authorized HR personnel can add new employees to the system. Specifically:

- **Restrict User Access:** Configure the payroll application so that the ability to create or reactivate employee records is limited to the Personnel, Labor and Manpower Division (PLMD) or a similarly authorized HR function. Regular payroll clerks or other non-HR staff should not have system rights to add new employees. This separation of duties will ensure that hires are vetted and approved through HR channels before they appear in payroll.
- **Monitor Changes:** In addition to new additions, restrict and log any changes to critical fields in employee records (such as banking info, pay rates, status). Ensure that changes are reviewed by a second person or included in an audit trail that management reviews. While this goes beyond just adding employees, it complements the control environment by preventing one individual from unilaterally making fraudulent changes.
- **Require Supporting Documentation:** Establish a policy that any new employee entry into the system must be backed by proper documentation (e.g., an approved Personnel Action Form, offer letter, or contract). The system or process should include a step where a supervisor in HR reviews the documentation and formally approves the creation of the payroll record. Ideally, the payroll system could have a workflow for approval of new entries, or if not, a manual log of new additions should be reviewed by management periodically.
- **Periodic Reconciliation:** The Payroll Department should perform a regular reconciliation of the payroll master list to authorized HR records. For example, on a monthly or quarterly basis, Payroll can obtain a list of active employees from the HR department and compare it to the list of employees being paid. Any discrepancy (an employee on payroll not on the HR list, or vice versa) should be investigated immediately. This will help detect any unauthorized entries that slipped through.

By implementing these controls, the State may significantly reduce the risk of unauthorized or fraudulent payroll entries. The goal is to have HR be the gatekeeper for who is in the system, and to have checks in place so that only legitimate, approved employees are paid. This will bolster confidence in the integrity of the payroll system.



## **No. 10 – Timely Updating of Personnel Status (Terminations)**

**Comment:** The audit noted a lack of effective controls to ensure that inactive or terminated employees are promptly removed or updated in the State’s personnel and payroll records. Currently, there is no centralized mechanism to guarantee that when an employee resigns, retires, or is otherwise terminated, the information is communicated and processed in the payroll system in a timely manner. Several factors were identified that contribute to delays or errors in updating personnel status:

- **Delayed Final Payments:** Sometimes final salary payments or benefit payouts to departing employees are slow to be resolved. Until those are cleared, departments might delay formally reporting the termination to the central HR (PLMD) or keep the employee “active” in the system to process the final pay, which can lead to confusion.
- **Contract Renewals and Extensions:** In cases of employees on fixed-term contracts, if contract renewals are processed late, the system’s records of termination dates might not be updated in time. For example, an employee’s contract ends on paper, but a renewal is pending; without prompt entry of the new contract dates, the system could reflect an inaccurate termination date or even terminate an employee who is still working under an extension. Conversely, if a contract is not renewed, failure to update that status means the individual could erroneously remain marked as active.
- **Clerical or Data Entry Errors:** There have been instances of simple mistakes e.g., entering the wrong termination date or failing to mark an employee as terminated in the HR system which result in an employee erroneously appearing on active payrolls.

The absence of a control to reconcile personnel changes means an increased risk of payroll errors, such as continuing to pay someone who is no longer employed, or misreporting the number of active employees. It also complicates workforce management and budgeting.

**Recommendation:** The State should implement procedures to periodically verify the roster of active employees and promptly update any changes in employment status. Steps to consider:

- **Regular HR-Payroll Reconciliation:** On a regular schedule (for example, monthly or quarterly), the Personnel Division (HR) and the Payroll Division should perform a joint review of all employees listed as active. The purpose is to ensure that each person on the payroll is indeed a current employee, and that anyone who has left State service is accurately reflected as inactive in both HR and payroll systems. This could be done by comparing a list of active employees in the HR database with the list of employees who received pay in the most recent pay periods. Any discrepancies (employees who appear on one list and not the other) must be investigated and resolved immediately.
- **Strengthen Notification Procedures:** Require that departments notify the central HR (PLMD) immediately when an employee is terminated or resigns. This can be reinforced through a formal policy or even automated: for instance, when a department processes a final timesheet or clearance for an employee, an electronic alert could be sent to HR. The HR department, in turn, should have a checklist to ensure that payroll is notified and the employee’s status is updated in the system by a certain deadline (e.g., within 1-2 days of termination).

## **No. 10 – Timely Updating of Personnel Status (Terminations)**

### **Recommendation, continued:**

- **Use of System Reports and Tools:** Leverage the capabilities of the State's information systems to spot anomalies. Under the current accounting information system (AIS) the State might consider using *EMPL2* reports to track termination dates and compare such to actual transactions in a *PYDIST.L54* report to determine the adequacy of any transactions occurring after termination dates. If the new AIS under review has similar reports such should be used for these purposes. If not, the State may consider consulting its IT department for customization of needed reports.
- **Data Integrity Checks:** Institute a practice of double-checking critical data fields related to employment status. For example, whenever a termination date is entered or changed in the system, have a second person review it for accuracy. If the new AIS under review has workflow capabilities, use them to require an approval step for personnel status changes.
- **Documentation for Exceptions:** In some cases, there may be legitimate reasons to keep an employee marked as active for a short period post-termination (such as to issue a final payment). If so, these cases should be documented, and a clear follow-up date should be set to ensure the status is changed once the final transaction is done. Maintaining notes or explanations in the system for any unusual status situations will assist in audits and reviews.

By regularly verifying active employees and improving the flow of information between departments, the State can prevent situations where former employees remain on the payroll system erroneously. Improved coordination between the Personnel office and Payroll office, supported by IT tools, will strengthen this aspect of internal control and reduce the risk of improper payments to ex-employees or reporting inaccuracies.

## **No. 11 – Compensated Absences (Annual and Sick Leave)**

**Comment:** The State's policies allow employees to accumulate annual leave up to a maximum cap (240 hours), while sick leave can accrue without a specified financial liability since unused sick leave is not paid out. Our review of the compensated absences records as of September 30, 2023 identified several control issues:

- **Excess Annual Leave:** At year-end, two employees had accrued annual leave balances exceeding 240 hours, the maximum allowed by policy. This indicates that the system or oversight did not prevent or timely identify over-accrual of leave for these employees, potentially resulting in liabilities beyond policy limits.
- **Negative Annual Leave Balances:** 292 employees had negative balances of annual leave (i.e., they had taken more leave than they had accrued), totaling an overdrawn amount of approximately \$67,176 in aggregate. Such negative leave situations effectively mean these employees were paid for leave time they had not yet earned. The State's management has noted that these negative balances were corrected after discovery, but their occurrence points to weaknesses in leave tracking controls.

## **No. 11 – Compensated Absences (Annual and Sick Leave), continued**

### **Comment, continued:**

- **Negative Sick Leave Balances:** 421 employees were carrying negative sick leave balances as of year-end. This is a significant number, though it reflects improvement compared to the prior year (when 656 employees had negative sick leave balances). Since the State does not treat sick leave as an accrued financial liability (unused sick leave is not paid out), these negative balances do not directly misstate liabilities; however, they are symptomatic of record-keeping issues. In recalculating some sick leave records, management found instances where the system's ending sick leave balances did not reconcile with the underlying detailed leave logs. Such discrepancies could be due to manual errors or system limitations, but importantly, they pose a potential fraud or abuse risk. If employees are allowed to take sick leave beyond their earned balance, they could effectively receive pay for time they are not entitled to, resulting in unauthorized overpayments. Even if those overages are later corrected, the initial lack of control can be exploited.

**Recommendation:** To strengthen management of compensated absences, the State should implement the following improvements:

- **Enforce Annual Leave Caps:** Configure the payroll/HR system to automatically cap annual leave accrual at 240 hours per employee. Once an employee reaches the cap, the system should prevent further accrual until the balance is reduced (or handle it according to policy, such as forfeiting or rolling into another category if allowed). Additionally, HR or Payroll should run quarterly reports on leave balances to identify any employee who exceeds, or is about to exceed, the cap and ensure corrective action is taken (such as notifying the employee and supervisor, or converting excess to leave without pay if policy dictates). Communicate clearly to all employees and supervisors that annual leave will not continue to accrue beyond 240 hours, so they can plan leave usage accordingly.
- **Prevent Negative Annual Leave:** Strengthen controls to prohibit employees from taking more annual leave than they have accrued. The leave request and approval system should check an employee's current leave balance before approving leave hours; if approving leave would result in a negative balance, either prevent the approval or require high-level authorization with a plan for how the deficit will be resolved. The payroll system should similarly reject or flag any time reported that would put the balance negative. Regular monitoring is needed: for instance, include negative leave balance checks in each pay period's processing routine. If a negative balance is discovered, investigate the cause (e.g., data entry error, oversight in approval) and correct it immediately. Supervisors should be held accountable for ensuring their staff do not run negative balances without proper authorization.

## **No. 11 – Compensated Absences (Annual and Sick Leave), continued**

### **Recommendation, continued:**

- **Address Sick Leave Record Discrepancies:** Even though sick leave is not capped by a payout, the State should reduce the incidence of negative sick leave as well. Policies can be instituted such as not allowing sick leave to go negative beyond a certain threshold (or at all) without senior approval. Improve the accuracy of sick leave record-keeping by periodically reconciling the leave recorded in the central system with departmental records or timesheets. Where the system is found to be out of sync with actual leave taken, correct those records and identify what caused the discrepancy (for example, was there a manual adjustment not entered system-wide?). Consider implementing periodic audits of leave records focusing on sick leave to catch errors. If many employees have negative sick leave due to an ongoing practice (like allowing advanced sick leave), management should evaluate that practice and implement guidelines to control it.
- **Mitigate Fraud Risks Related to Leave:** Introduce additional oversight to detect and prevent abuse of leave. One idea is to set up an automated alert in the system for any employee who, for instance, uses more than 80 hours of sick leave in a short period or whose sick leave balance goes negative. Such alerts could prompt HR to review the situation for potential misuse. Provide training or guidance to managers on how to review leave reports for their staff – managers should routinely check that leave taken by employees is properly recorded and that no one is receiving pay for leave they have not earned. As a deterrent, the State could implement a policy of secondary review for any employee with unusual leave patterns (for example, HR could review the records of anyone with a negative leave balance or excessive leave usage). In cases where an employee's leave usage is flagged, require a higher level of approval for any further leave until the issue is resolved.

## **No. 12 – Journal Voucher (JV) Controls**

**Comment:** Journal vouchers are used by the State to record non-routine or adjusting entries in the general ledger. We identified several deficiencies in the way journal vouchers were controlled and documented in FY2023:

- **Missing Documentation:** Seven (7) journal vouchers, totaling approximately \$70,120, had no supporting documentation on file. While this dollar amount is not material to the financial statements, the absence of support means we could not independently verify the purpose or propriety of those adjustments. Every journal entry should be justified by an explanation and evidence (e.g., calculations, source documents), so undocumented JVs represent a breakdown in controls and transparency.

## **No. 12 – Journal Voucher (JV) Controls**

### **Comment, continued,**

- **Sequence and Coding Gaps:** The journal vouchers are expected to be coded in sequence with a prefix indicating the fiscal year (for example, entries for FY2023 should be numbered like V23XXXX). However, our review found that the sequence was not tightly maintained: there were 23 gaps in the numerical sequence of FY2023 JV codes. Additionally, some JVs appeared to have been mis-numbered or mis-filed by year: 12 JVs with “V23” prefixes were entries belonging to FY2022, and 6 JVs with “V23” codes were for FY2021. Moreover, 17 expected JV numbers in the 2023 sequence could not be located at all – they did not correspond to any entry in FY2023 or the prior years (management is investigating whether these numbers were skipped, voided, or otherwise mishandled). Such irregularities complicate the audit trail and could potentially hide unrecorded or unauthorized entries if not investigated.
- **Unassigned JVs:** There were seven transactions in the general ledger that had no JV reference code assigned. These included one large inter-fund transfer of \$501,410 (from the CIB General Fund to the CIB Payroll Fund) and several smaller adjusting entries totaling \$9,373. The lack of a JV code suggests these entries bypassed the normal JV logging process, making it harder to trace to an approval, or supporting document.
- **Frequent Corrections:** We observed that a number of JVs were actually corrections of prior JVs, sometimes with multiple layers of correction. For example, JV *V230281* (which was intended to reimburse the General Fund) was subsequently corrected three times by JVs *V230330*, *V230333*, and *V230344*. While adjustments are sometimes necessary, the prevalence of back-and-forth correcting entries indicates issues with getting entries right the first time or possibly unclear instructions leading to errors. We noted that many of these correcting entries were authorized by individuals who have since left or been replaced, implying that historical practices may have been less stringent. This underscores the need for stronger controls to prevent such iterative corrections.

Overall, the journal voucher process as documented for FY2023 shows weaknesses in control over numbering, record-keeping, and review. Without sequential integrity and complete documentation, the State faces a risk that errors or inappropriate entries could occur and not be readily detected.

**Recommendation:** The State’s Department of Treasury and Administration (DOTA) has begun addressing JV control issues, and we recommend continuing to reinforce those efforts with specific actions:

- **Ensure Complete and Sequential Recording:** All journal vouchers should be recorded in the accounting system with their unique JV reference in a designated field (e.g., the “Reference 1” column). This practice makes it easy to filter and sort ledger data by JV number and detect any gaps. Perform a sequence check at least annually (preferably at year-end, before closing the books) to identify missing or out-of-order JV numbers. If a JV number is skipped or missing, determine why: Was it never used, was the entry erroneously not logged, or was the entry posted in a different period under the wrong number? All gaps should be accounted for (e.g., documented as voided or corrected).

## **No. 12 – Journal Voucher (JV) Controls, continued**

### **Recommendation, continued:**

- **Enforce Fiscal Year Prefix Usage:** Adhere strictly to the convention that the JV numbering prefix corresponds to the fiscal year of the entry. If an entry is being made in October for the prior fiscal year's adjustment, it should carry the prior year's code (e.g., "V22" if adjusting FY2022) or otherwise be clearly indicated as a prior period entry. Misleading coding (like an FY2023 code on an FY2022 entry) should be avoided because it confuses the record. Implement checks during the posting process – for instance, require that JV entries include the fiscal year in their description, and have a supervisor verify that the coding makes sense for the date of the entry.
- **Require Supporting Documentation for Every JV:** No journal voucher should be approved or posted without adequate supporting documentation. DOTA should formalize what constitutes sufficient support: at minimum, a brief memo or form explaining the reason for the JV, along with any calculations or source documents (invoices, schedules, etc.) that justify the amounts. Continue the use and proper authorization of JV control forms by preparers and reviewers. File all JV support in an organized manner (e.g., by JV number) so that any entry can be readily pulled for review. Auditors and internal reviewers should be able to pick any JV and find a clear explanation and backup.
- **Improve Review and Training:** Journal voucher accountants (and any staff who prepare JVs) should be trained to exercise greater diligence. Emphasize that they must fully understand each entry's purpose and ensure the accounts involved are correct before posting. A second-level review by a senior accountant or controller should be required for non-standard or complex JVs. Also, if multiple correcting JVs are observed, take that as a learning opportunity: analyze why the initial entry was wrong and address that root cause (be it a knowledge gap, a typo, or miscommunication) to prevent recurrence.

These recommendations may assist the State with enhancing the reliability, transparency, and completeness of its general ledger and its journal voucher documentation.

### **No. 13 – Federal Grants: Fund 20 SEFA Program Codes**

**Comment:** Fund 20 is used by the State to record expenditures of federal awards passed through from the FSM National Government (FSMNG). During the audit, a reconciliation was performed between the State's records and the FSMNG's records of these federal programs. The reconciliation identified two main issues:

- Some federal programs in the State's accounting records were associated with incorrect or outdated Assistance Listing Numbers (ALNs) (formerly known as CFDA numbers) or program titles. In other words, the coding in Fund 20 for certain grants did not match the official ALN information.
- There were various misclassifications of expenditures in the State's Schedule of Expenditures of Federal Awards (SEFA) that had to be reclassified to align with FSMNG's categorization. These reclassifications did not change the total amount of federal expenditures reported, but they indicate that some expenses were initially recorded under the wrong program codes or titles and needed adjustment for reporting purposes. In summary, while total federal spending was correct, its breakdown by program was initially inaccurate. This suggests that when grants were recorded, either the wrong program code was used or changes in grant identifiers (like ALNs) were not updated in the State's system.

**Recommendation:** The State should institute more robust controls and periodic checks for its federal grant coding to ensure ongoing accuracy. Key steps include:

- **Annual Verification of ALNs:** At least once a year (ideally at the start of the fiscal year or when new grants are awarded), the State's grant accounting staff should verify all active grant program codes and titles against the federal government's official listings (such as SAM.gov). If an ALN (Assistance Listing Number) has changed or if the State's ledger uses a placeholder or old number, it should be updated to the correct current number. This practice will ensure that the financial system's data aligns with federal award information. Documentation from grant award letters or federal databases should be maintained to support the accuracy of codes used.
- **Quarterly Reconciliations with FSMNG:** The State should hold regular (e.g., quarterly) reconciliation meetings with FSM National Government officials. In these meetings, both parties can compare grant expenditure records program by program. Any differences in program classification or coding can be identified early and corrected in the State's books well before the annual SEFA preparation. This ongoing alignment will make the year-end process smoother and reduce the risk of errors.
- **Training and Guidance:** Provide training to finance personnel on the importance of accurate grant coding. Staff should be familiar with reading federal grant award documents to extract the correct ALNs and other identifiers. Consider creating a reference list or database of all federal grants the State has, including their ALNs, and official names so that everyone uses consistent codes.
- **Review Before SEFA Finalization:** When preparing the SEFA at year-end, implement a review step where someone not involved in day-to-day grant entry (for example, an internal auditor or a senior accountant) cross-checks the programs and ALNs listed in the SEFA against external sources (grant agreements, SAM.gov) to ensure accuracy. This should catch any remaining misclassifications in time.

### **No. 13 – Federal Grants: Fund 20 SEFA Program Codes, continued**

#### **Recommendation, continued:**

By taking these actions, the State may enhance the accuracy of its federal grant reporting. Correct ALNs and program codes are crucial for accountability and compliance, as they affect federal oversight and the Single Audit process. Proactive reconciliation and verification will prevent the need for after-the-fact reclassifications and ensure that both the State and FSMNG maintain consistent records of grant expenditures.

### **No. 14 – Compliance Signoffs on Requisitions and Vouchers**

**Comment:** In reviewing the State’s expenditure approval forms (such as purchase requisitions, travel authorizations, and miscellaneous payment vouchers), we noted a control design issue: the forms do not include a designated signature line for a departmental fiscal officer or grants compliance officer. Typically, good practice for organizations with decentralized departments is to have someone at the department level (e.g., an accountant or grants manager in the department) review financial documents for accuracy and compliance with budgets or grant terms before the department head approves the expenditure. In the State’s current forms, the only signatures might be the requestor, the department director (allottee director), and central approval (Finance or DOTA), with no explicit field for the department’s fiscal specialist. This means that a key internal control – the review by someone knowledgeable about the department’s finances or grant requirements – could be bypassed or is happening informally without documentation. Consequently, a director might approve a payment without a clear indication that it was first vetted for compliance by their financial support staff.

**Recommendation:** The State should update its standard forms and procedures to incorporate a department-level fiscal/grant compliance review prior to final approval. Concretely, this would involve:

- **Form Redesign:** Modify purchase requisition forms, travel authorization forms, and miscellaneous payment vouchers to add a signature line (or check box with name) for the department’s fiscal officer or grant specialist. This could be labeled, for example, “Reviewed by Department Fiscal/Grants Officer,” with a line for date and signature. The placement should be before the department director’s signature.
- **Policy Implementation:** Formalize the requirement that no expenditure request reaches the Director’s desk without this preliminary sign-off. Issue an internal memo or update to the Financial Management Regulations instructing that department heads should look for the fiscal officer’s signature before they sign. If the form comes without it, it should be sent back for that review.
- **Training and Communication:** Ensure that all departments understand the purpose of this control. Departmental fiscal officers should be trained on what they need to check (for example, availability of funds, correctness of account coding, compliance with grant terms, completeness of supporting documentation, etc.) when they sign off. Directors should be briefed that this added signature is for their protection as well, providing assurance that someone has vetted the request.
- **Central Finance Acknowledgment:** At the State (DOTA) level, when Finance receives these documents for processing, they should verify that the new departmental review signature is present. Over time, if consistently enforced, this will become a routine expectation and strengthen the overall approval workflow.



#### **No. 14 – Compliance Signoffs on Requisitions and Vouchers, continued**

##### **Recommendation, continued:**

Implementing this additional signatory step will give directors clearer evidence that each request has been pre-reviewed by a knowledgeable staff member. It also adds an extra layer of control for the State's Finance Department, as they will know that departmental compliance checks (budget availability, grant allowability, etc.) have been performed. This should reduce errors, omissions, or non-compliant expenditures and ultimately enhance the State's internal control over disbursements.

#### **No. 15 – Cash Receipt Ledger Coding**

**Comment:** When analyzing the State's cash receipt processes, we found that the accounting entries for cash collections do not incorporate the receipt number as part of the transaction description or reference in the general ledger. In practice, each official receipt issued for collections (tax payments, service fees, etc.) has a unique receipt number. Ideally, that number should be recorded in the accounting system to link the deposit entry to the specific receipt. However, in the State's system, none of the three reference fields for a transaction are populated with the receipt identifier when cash receipts are recorded. This makes it cumbersome to trace a particular receipt from the ledger, as one has to rely on dates and amounts alone, rather than a unique reference.

Additionally, the deposit clearing account and the revenue accounts cannot be easily cross-referenced on a per-receipt basis without that identifier. In other words, if Treasury wants to ensure that all receipts were properly deposited and recorded to revenue, the process is manual and time-consuming due to the lack of a common reference number in the ledger entries. This is largely a system usage issue rather than a fundamental error, but it impacts efficiency and the audit trail quality.

**Recommendation:** The State should consider adjusting its cash receipt recording procedures so that the receipt number is included in the ledger entry for each transaction. Possible actions to implement this:

- **System Input Change:** If the accounting software allows, configure one of the reference or description fields to accept the cash receipt number at the time of data entry. For example, when Treasury staff record a batch of revenue, they should enter "Receipt #123456" (or a similar format) in the description for each line item corresponding to that receipt. This way, when looking at the revenue account or the deposit clearing account in the ledger, one can see exactly which receipt it ties to.
- **Training for Collection Officers:** Instruct the cashiers or collection officers who prepare deposit slips or accounting entries on how to include the receipt number in the entry. This might be as simple as typing it into the system's memo field for each receipt. Emphasize the importance of consistency (e.g., always using a standard format like "CR#XXXXXX" where XXXXXX is the number) so that searches and filters in the ledger will work.
- **Reconciliation Process Improvement:** With receipt numbers in the ledger, Treasury staff can generate reports filtered or sorted by those numbers. This will simplify monthly reconciliations between the cash receipts log and the general ledger. For instance, one could quickly identify if any receipt numbers are missing in either record or trace a discrepancy by receipt number rather than by date and amount alone.

## **No. 15 – Cash Receipt Ledger Coding, continued**

### **Recommendation, continued:**

Overall, embedding the cash receipt number in ledger entries will make the State's revenue recording more transparent and easier to manage. It connects the front-end receipt process with the back-end accounting record, in any future audits or internal reviews, an auditor can pick a sample of receipt numbers from the receipt book and directly search the ledger for those references, streamlining the verification process.

## **No. 16 – Travel Expense Processing Timelines**

**Comment:** The State's Financial Management Regulations prescribe clear timelines for the processing of travel advances and the subsequent travel vouchers. Specifically, travelers must submit a travel expense report (travel voucher) to the Department of Treasury and Administration (DOTA) within 10 working days after the end of their travel. DOTA then has 10 working days from receipt of the voucher to inform the traveler if the travel advance exceeded actual expenses (i.e., if the traveler owes money back to the State) or if the traveler is due a reimbursement (if actual expenses exceeded the advance). If the traveler owes money (an over-advance situation), they are required to repay the government within 20 working days from the notification date. If the traveler is owed additional reimbursement, DOTA should pay that amount within 10 working days of voucher submission. These rules are designed to promptly settle travel accounts.

Our audit of FY2023 travel transactions found issues with how these timelines were documented and potentially followed:

- **Unclear Voucher Submission Dates:** We observed that many travel vouchers lacked a reliably documented date of when they were submitted to DOTA. Some vouchers had a handwritten or stamped date in the upper corner, but in several cases this date was absent or did not align with other dates on the form (such as the traveler's signature date or the department director's approval date). In some instances, a traveler or approving official signed the voucher but left the date blank. This made it difficult to verify whether the submission was within the required 10-day window after travel.
- **Difficulty in Tracking DOTA's Response Time:** Because of the inconsistent or missing submission dates, we could not easily determine if DOTA notified travelers of over-advances or issued reimbursements within the prescribed 10 working days after receiving the vouchers. For example, if a traveler returned on October 1 and should submit by October 15, but we do not know when DOTA actually received the form, we cannot confirm if DOTA's notification (or reimbursement) was sent out by the expected deadline. Essentially, the starting point for the clock was not well documented.

During FY2023, the State began to address this issue by introducing a "received" stamp. We saw evidence that some vouchers were stamped with the date they were received by DOTA, which is a good practice to clearly mark the submission date. However, this was not yet uniformly applied to all samples we reviewed.

#### **No. 16 – Travel Expense Processing Timelines, continued**

**Recommendation:** To ensure compliance with travel expense processing timelines and improve transparency, the State should consistently enforce the following practices:

- **Date Stamp on Receipt:** DOTA's Travel Unit should date-stamp every travel voucher upon receipt. The stamp should be placed in a standard location on the form and indicate the exact date (and ideally time) the voucher package was received. This will serve as the official submission date. All staff who handle incoming travel vouchers must be trained to perform this step immediately.
- **Complete Signature Dating:** Instruct all individuals involved in approving travel vouchers (travelers, department heads, and DOTA officials) to date their signatures. A signature without a date is not very useful for establishing when that approval happens. Having all signatories date their approvals provides a clear timeline of the voucher's progression. DOTA can reinforce this by returning any voucher that has undated signatures or by not finalizing processing until dates are obtained.
- **Monitor Turnaround Compliance:** With a received date clearly marked, DOTA should internally track the 10-day response requirement. For instance, set up a simple log or system where each received voucher's due date (for notification or reimbursement) is recorded. DOTA management can then monitor this log to ensure staff meet the deadlines. If a particular case cannot be settled within 10 working days (perhaps due to missing info or disputes), that should be documented with reasons.
- **Reminders and Enforcement:** Remind travelers and supervisors of their obligation to submit travel reports within 10 days of travel completion. This could be done through an updated travel policy memo or by including a reminder in the travel advance paperwork given to travelers before their trip. Ensuring prompt submission helps DOTA meet its timelines as well.
- **Audit Trail for Notifications:** When DOTA notifies a traveler of an amount due (over-advance) or processes a reimbursement, they should document the date of that action on the voucher or in an attached communication. This way, if ever reviewed, one can see travel end date, submission date, notification/reimbursement date, and repayment date (if applicable). Maintaining this complete trail will show compliance (or highlight issues) clearly.

By consistently using a received date stamp and enforcing dating of all signatures, the State will have a much clearer record of the travel voucher process. This will enable verification that the Financial Management Regulations' timelines are being followed. Moreover, it will help identify where delays are occurring (if any) so that management can take corrective action, ensuring travelers settle their accounts and the State recovers funds or pays reimbursements in a timely manner.

#### **No. 17 – Contractual Advances and Deliverables**

**Comment:** During the audit, we noted instances where the State had outstanding advance payments to contractors that remained in the books without timely reconciliation. These were identified and corrected via audit adjustments during FY2023. Specifically, the State had made advance payments on certain contracts (for projects or services), but due to insufficient documentation of contract performance, those advances had not been cleared (matched with delivered goods/services) in a timely manner.

## **No. 17 – Contractual Advances and Deliverables, continued**

### **Comment, continued:**

In essence, money was paid out in advance, and the contractors may have completed the work or delivered the goods, but the State lacked proper records (such as completion certificates or acceptance documents) to confirm that the contract terms were met.

As a result, the advances lingered as assets on the State's accounts when they should have been recognized as expenses (if deliverables were received) or recovered (if contracts were unfulfilled). The root cause appears to be that at the time of contract execution and advance payment; the agencies did not put in place a strong mechanism to track and document the fulfillment of the contract deliverables tied to those advances. This led to "stale" advances that had to be cleaned up after the fact.

**Recommendation:** State agencies that issue advance payments on contracts must implement stricter controls to track deliverables and clear advances. At a minimum, the following should be in place:

- **Deliverables Tracking:** For each contract involving an advance, the overseeing agency (department managing the contract) should maintain a deliverables/milestone log. This log lists each deliverable or phase of the contract, the expected completion date, and the person responsible for confirming completion. When an advance is given, it should be tied to specific milestones or deliverables. The agency must follow up by the due date to obtain evidence that the deliverable was completed.
- **Documentation of Completion:** Require formal documentation when contractual obligations are fulfilled. For example, if an advance is given for a construction project phase or for a consultant's services, the project manager responsible should produce or obtain a completion certificate, report, or similar document indicating that the work was done satisfactorily and on what date. This document should be forwarded to the Finance Office to support releasing the advance from the accounting records (i.e., recognizing the expense).
- **Conditional Release of Advances:** Link the liquidation of the advance in the accounting system to the receipt of the above documentation. The Finance/Accounts Payable department should not expense an advance without confirmation from the project agency that the corresponding goods or services were received. If year-end is approaching and the advance is still outstanding, Finance should inquire with the agency about its status, and if deliverables are incomplete, consider carrying the advance forward with proper disclosure and documentation.
- **Policy and Procedures:** The State should update its contracting and financial policies to clearly state that advances require monitoring. This includes defining who is responsible for verifying completion (e.g., the project manager or a contract administration unit) and within what timeframe. For instance, if an advance covers the first half of a project, the policy might require verification of completion within 30 days of the expected milestone before any further payment or before clearing the advance. If the contractor does not deliver, the policy should outline steps for recoupment of the advance or other remedies.
- **Oversight and Audit:** Management should periodically review outstanding advances (perhaps quarterly) to ensure they are justified. An advance that has been on the books for an extended period should prompt an inquiry. Compliance and finance staff can also test a sample of advances to see if documentation of deliverables is present.

## **No. 17 – Contractual Advances and Deliverables, continued**

### **Recommendation, continued:**

By requiring proper documentation of contract performance and tying it to the financial treatment of advances, the State will ensure that advances are only converted to expenses when supported by evidence of delivered value. This should improve financial accuracy (no more lingering advances that should be expenses) and safeguard public funds by holding contractors accountable to their deliverables before funds are fully expended.

## **No. 18 – Other General Disbursement Control Issues (Grants Funds)**

**Comment:** In addition to the major findings already described, our audit procedures noted several miscellaneous internal control deficiencies in the processing of cash disbursements, particularly within the State's grant-funded programs. These issues, while individually not material, point to gaps in adherence to established procedures. Specifically, we observed:

- **Missing Approvals on Grant Fund Vouchers:** In our tests of Fund 20 (federal grants fund) disbursements, three travel expense vouchers were processed without the signature of the DOTA Finance Director, as required. The relevant obligations (Nos. 349757, 349758, and 354129) lacked this ultimate approval. The Finance Director's sign-off is a required final control step, its absence implies it was either bypassed or there was an oversight and failure to sign.
- **Account Coding and Asset Identification Error:** In a Fund 10 transaction we examined Obligation No. 354860, which involved purchasing a replacement strut for a Department of Health & Social Services vehicle, we found two issues: (1) The purchase requisition authorized the expenditure under account 8228, but the payment was ultimately recorded in the general ledger under account 8225. There was no documentation explaining why the expense was moved to a different account; and (2) The requisition and supporting documents did not reference a fixed asset or vehicle identification number for the item, making it unclear which State vehicle the part was for. Without that reference, it is difficult to link the purchase to the State's asset inventory or ensure the part is recorded as an improvement to the correct vehicle, if capitalizable.
- **Unsigned Contract Extension:** In our review of Fund 21 disbursements, we examined two payments (Obligations No. 298201 and 299573) related to a contract for a medical professional. These payments fell under a contract extension covering the period January 2023 to September 2023. The contract in question was a recurring one, but the latest renewal lacked the formal approval signature of the DOTA Director. Processing payments on an incompletely authorized contract is a compliance lapse.
- **Data Entry Mistake in Program Coding:** Another Fund 21 transaction (Obligation No. 349658) revealed a data entry error during the encumbrance stage. The controlling documents for this transaction indicated it should be charged to Program 37100. However, when staff entered the encumbrance into the system, they mistakenly used Program 37134, and this error was not corrected during the final payment process. Staff proceeded to issue the payment aligned with the original (incorrect) encumbrance. The amount involved was small (\$144), but the misclassification went unnoticed in the normal process. This indicates that review procedures did not catch an obvious inconsistency between the intended coding on the supporting document and the actual coding in the system.

## **No. 18 – Other General Disbursement Control Issues (Grants Funds), continued**

### **Comment, continued:**

Each of these issues suggests an area where internal controls or adherence to procedures can be improved, even if the immediate financial impact was minor. Left unaddressed, they could lead to larger problems or signify a lax control environment in the handling of disbursements in special funds.

**Recommendation:** To address the above deficiencies and strengthen overall disbursement controls, we recommend the State implement the following improvements:

- **Enforce Required Approvals:** No disbursement from grant funds should be processed without all necessary signatures. In particular, for travel and other grant-related vouchers (Fund 20 or similar), the DOTA Finance Director's approval must be obtained and evidenced on the voucher before payment. Accounts Payable should be instructed to check for this signature (and any other required approvals) as a standard step. If a voucher is missing an approval, it should be returned or escalated rather than paid. The Finance Director (or an authorized delegate) should periodically sample processed vouchers to ensure compliance with this requirement.
- **Improve Account Coding Discipline:** Maintain consistency between authorized account codes on requisitions and the accounts used in recording the expense. If, for any reason, an expense needs to be charged to a different account than originally indicated, the change should be documented with a brief justification and approved by a supervisory official. In the example of the vehicle part (Obligation 354860), if Supplies (8225) was more appropriate than POL (8828), a note to that effect (e.g., "account code adjusted by Finance for correct classification") should be attached to the voucher. This creates a trail explaining deviations. Additionally, the State should remind departments to accurately identify related assets on purchase documents. For any purchase of parts or equipment for State assets, require inclusion of the asset ID or tag number on the requisition or payment voucher. This helps link expenditures to the correct asset, aiding in asset management and accounting (e.g., distinguishing maintenance expense vs. capital improvements).
- **Contract Compliance Checks:** Before processing payments on contracts or contract extensions, verify that the contract is fully signed and executed. The absence of the DOTA Director's signature on the medical professional's contract extension (January–September 2023) should have been caught either by fund certification or accounts payable as a last resort. To prevent such issues, the responsible department should have a checklist for contract payments: confirm that a current, signed contract (or amendment) covering the service period is on file. If not, halt payment and obtain the proper approvals. It may also be worthwhile for the State to centralize tracking of contract approvals and maintain a registry of contracts and their approval status, so that any extension not properly authorized is flagged.

**No. 18 – Other General Disbursement Control Issues (Grants Funds), continued**

**Recommendation, continued:**

- **Strengthen Data Entry and Review Procedures:** Implement a secondary review of coding for transactions, especially when processing encumbrances and payments. In the case of Obligation 349658, had there been a reviewer verifying that the program code in the system matched the code on the obligation document, the discrepancy could have been corrected before issuance of the check. We suggest that for each payment batch, a supervisor or senior accountant review a sample of transactions to compare key fields (like program/fund codes, amounts, payees) against supporting documents. Even though the \$144 error was small, a similar mistake on a larger transaction could misallocate funds. Additionally, provide refresher training to staff on the importance of accurate data entry and attentiveness to detail, since preventing errors at the source is the best control. If the State implements a new AIS, ensure it has validation rules or at least easily viewable fields to cross-check such coding.

By tightening these controls and ensuring adherence, the State may reduce the risk of unauthorized expenditures and misclassification of expenses. Each of these recommendations targets a lapse observed during our general testing, and collectively they should contribute to a more robust internal control environment for disbursements across all funds. In summary, all payments should be properly approved, correctly coded, and fully documented before release. Strengthening oversight in these areas will improve compliance with policies and safeguard the State's assets.



## POHNPEI STATE GOVERNMENT

### Department of Treasury and Administration

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#### Office of the Director

November 6, 2025

Burger Comer Associates, LLC  
333 South Marine Corps Drive  
Tamuning, GU 96913

This representation letter is provided in connection with your audit of 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 Pohnpei (the State) for the year then ended September 30, 2023, which collectively comprise the State's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, as applicable, of the State in accordance with accounting principles generally accepted in the United States of America (U.S GAAP) and the single audit of the State conducted for the year ended September 30, 2023.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

#### Financial Statements:

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

1. We are responsible for the preparation and fair presentation of the State's basic financial statements inclusive of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, and the notes thereto in accordance with U.S GAAP.
2. We are responsible for the preparation, fair presentation, and conformity with applicable U.S GAAP and Governmental Accounting Standards Board (GASB) requirements for the States:

*Wahu Pahrekie Sapwekeika*



- a. Required supplementary information statements.
  - b. Other supplementary information statements.
  - c. Schedule of Expenditures of Federal Awards, its summary schedule, and its notes.
  - d. Summary schedule of Audit Findings and Questioned Costs and our Corrective Action Plan.
3. We acknowledge that we have revised the September 30, 2023 financial statements to include the closure of the Compact II sector grant fund balances. We confirm that these amounts were not available for future program expenditures and that the transfer to the General Fund was appropriate. We accept full responsibility for the prior period adjustment recorded on November 6, 2025.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter under **Appendix C**.
5. We acknowledge that you have provided us with a draft copy of the financial statements for the year ended September 30, 2023. We have reviewed this draft and confirm its accuracy and completeness.
6. Except as discussed in the "*Qualified Opinion on Governmental Activities*" paragraph of your Independent Auditors' Report, the financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds as follows:
  - a. Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (non-spendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
  - b. Investments, derivative instrument transactions, and land and other real estate held by endowments are properly valued.
  - c. Receivables recorded in the financial statements represent valid claims or other charges arising on or before the date of the statements of net position and have been appropriately reduced to their estimated net realizable value. The State is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such accounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances. Quantitative and qualitative information regarding the allowance of doubtful accounts has been properly disclosed in the financial statements.
  - d. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

- e. Deposits and investment securities and derivative instrument transactions are properly classified as to risk and are properly disclosed.
  - f. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized. Capital assets, including intangible assets, have been evaluated for impairment for any significant or unexpected declines in service utility. Impairment loss and insurance recoveries as applicable have been properly reported.
  - g. Revenues are appropriately classified in the financial statements within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  - h. Expenses have been appropriately classified in or allocated to functions and programs in the financial statements, and allocations have been made on a reasonable basis.
  - i. Applicable laws and regulations are followed in adopting, approving and amending budgets.
7. The financial statements include all component units, and if applicable appropriately present majority equity interests in legally separate organizations and joint ventures with an equity interest and properly disclose all other joint ventures and other related organizations.
8. The financial statements include all fiduciary funds and activities required by GASBS No.84, as amended.
9. The financial statements properly classify all funds and activities in accordance with GASBS No. 34, as amended.
10. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
11. Significant assumptions the State used in making accounting estimates, including those measured at fair value, are reasonable. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that:
- a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
12. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

13. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
14. The effects of all known material actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
15. Guarantees, whether written or oral, under which the State is contingently liable, if any, have been properly recorded or disclosed.
16. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
17. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
18. Management is aware of its responsibility to disclose whether, subsequent to September 30, 2023, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred. We represent to you that no such changes or corrective actions has occurred.

**Information provided:**

19. The State has provided to you all relevant information and access.
20. The State has made available to you:
  - a. The State represents that it has no minutes of meetings of members, officers, or summary actions with respect to the primary government.
  - b. All financial records and related data for all financial transactions of the State and for all funds administered by the State. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the State. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
  - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
  - d. All public laws issued during the period under audit.
  - e. Additional information that you have requested from us for the purpose of the audit.

- f. We confirm that all revisions made to the financial statements as of November 6, 2025 were appropriately approved by management and reflect all adjustments necessary for fair presentation. No information has been withheld that would affect the auditor's report.
- 21. The State has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management of the State has made available to you their understanding about the risks of fraud in the State and do not believe that the financial statements are materially misstated as a result of fraud.
- 22. Except as made known to you, we have no knowledge of any fraud or suspected fraud that affects the State and involves—
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where fraud could have a material effect on the financial statements.
- 23. Except as made known to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the State's financial statements communicated by employees, former employees, regulators, or others.
- 24. No information relating to the Compact II fund balance closeout or treatment of prior period sector grant balances has been withheld, and management confirms that the prior period adjustment was necessary to accurately present the financial statements.
- 25. Except as made known to you, we have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.
- 26. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 27. There are no material unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgements*.

**Entity specific:**

- 28. We certify that there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 29. We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.

30. We have disclosed to you the identity of the State's related parties and all the related party relationships and transactions of which we are aware that includes sales, purchases, loans, transfers, lease agreements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
31. We are responsible for taking corrective action on audit findings and have developed a corrective action plan. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
32. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
33. The State has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position within the financial statements.
34. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
35. We are responsible for compliance with State, FSM and federal laws, rules, and regulations, including compliance with the provisions of grants and contracts relating to the State's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The State is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
36. Except as made known to you, there are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
37. The State has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
38. The State has complied with all aspects of contractual agreements that would have a material effect on the financial Statements in the event of noncompliance.
39. All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
40. We have appropriately disclosed the State's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which

both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

41. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

42. Regarding required supplementary information:

- a. We confirm that we are responsible for the required supplementary information.
- b. The required supplementary information is measured and presented in accordance with GASB Statement No. 98, *Annual Comprehensive Financial Report*.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

43. During the year ended September 30, 2023, the State implemented the following GASB pronouncements:

- a. GASB Statement No. 91, *Conduit Debt Obligations*. The State implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The State has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
- b. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The State implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The State has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
- c. GASB Statement No. 96, *Subscription – Based Information Technology Arrangements*. The State implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The State has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
- d. Certain required provisions of GASB Statement No. 99, *Omnibus 2022*. Particularly those relating to: (1) clarification on the provisions of GASB Statement No. 87, *Leases*, (2) clarification on the provisions of GASB Statement No. 94, (3) clarification on the provisions of GASB Statement No. 96 and (4) modifications to the accounting and reporting guidance in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, relating to the termination of hedges. The State has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.

44. The State is still in the process of evaluating the impact which upcoming GASB pronouncements may have on the financial statements of the State:
- a. Certain provisions in GASB Statement No. 99, *Omnibus 2022*. Particularly those relating to:
    - o Modifications to the guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.
    - o Guidance on the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
  - b. GASB Statement No. 100, *Accounting Changes and Error Corrections*.
  - c. GASB Statement No. 101, *Compensated Absences*.
  - d. GASB Statement No. 102, *Certain Risk Disclosures*.
45. The State's ownership of common stock shares with the Pacific Islands Development Bank does not meet the definition of an investment under GASB Statement No. 72, *Fair Value and Measurement Application*. They are held for economic development rather than for the purpose of income or profit. Accordingly, they are recorded as other assets in the financial statements.
46. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements. We confirm that we have disclosed to you all events occurring subsequent to August 29, 2025 through November 6, 2025 that might require adjustment or disclosure in the financial statements.
47. The State's ownership of common stock shares in the Caroline Fisheries Corporation (CFC) does not meet the definition of an equity method investment under GASB 72. Management represents that State does not have the ability to significantly influence the operations of the CFC despite its 41% ownership interest as of September 30, 2023, primarily because 59% is held by a single entity that oversees all operations of the CFC. Despite the State holding a greater than 20% interest and having a designated individual on CFC's Board. The State does not have any significant intra-entity transactions with CFC, inter-change management or operational personnel with the CFC, nor the ability to definitively dictate the selection of management personnel or have an operational or technological basis on which CFC is dependent to the State.
48. Despite continuing payment delinquency for various Pohnpei Public Land Trusts (PPLT) lease arrangements, the State's position is that it will continue to renew all PPLT leases subject to the constraints of each lease agreement and pursue collections from all of its lessees.
49. Previously, the State had administered loans financed by the United States Department of Agriculture Rural Development Agency (USDA). On March 28, 2007 the State was notified that various loans in the program may be in default. During the years ended September 30, 2009 and 2010, the State transferred all such defaulted loans to the Pohnpei State Housing Authority

(PSHA). An agreement was established between the State and PSHA whereby PSHA bears responsibility for collections and returning such collections to the State. Regarding the ultimate recovery of all loans, however, PSHA management is of the opinion that the State will ultimately be liable. Accordingly, the PSHA has only recorded liabilities for the amount of cumulative unremitted USDA loan collections due to the State.

The State takes the position that timely communication in accordance with its agreement with the PSHA and USDA was not made. The State does not believe it ultimately will be liable for all such loans and accordingly it has not recognized a liability for the balance which currently is carried and fully provisioned on the books of the PSHA totaling \$1,319,694 as of September 30, 2023.

50. The State's ADB loan balance as of September 30, 2023 totaling \$2,811,842 based on confirmation from the FSM National Government is accurate to the best of our knowledge.
51. The State's ending Sector receivable and unearned revenue balances are based on reconciliations that occurred during the year-ended September 30, 2023 between the State and the FSM National Government (FSMNG). Amounts to be remitted to the FSMNG are subject to review upon payout, closing adjustments excluding balances previously agreed upon have been made to close Compact II sector fund balance. As of September 30, 2023 the State represents that:
  - a. Total compact sector receivables due from FSMNG total \$1,626,873;
  - b. Total federal block grant receivables due from FSMNG total \$621,588;
  - c. Total unearned revenues representing dues to FSMNG on compact sector receivables total \$2,710,759; and
  - d. The net payable due to FSMNG for sector funds established from reconciliation meetings is \$1,482,494. After the application of FY23 client adjustments to SEG deferred revenues, it is \$1,747,956.
52. The State is still determining whether there are any restrictions against closing out the fund balances of the Section 221(b) Special Block grant and Compact I Other. No closing adjustments have been made to ending fund balance for the year ended September 30, 2023.
53. The State represents that the aggregate effect on the financial statements and disclosures for transactions which had no written supporting documentation are immaterial to the financial statements and disclosures as a whole.
54. The State represents that the existence of duplicate check numbers in the State's: general fund, sector, and payroll cash accounts are only a result of control failures occurring from the State's fundware system crash during the year ended September 30, 2023.

**Federated States of Micronesia – Early Retirement Program Trust Fund**



55. The Asian Development Bank (ADB) requires that the FSM to have funds available to satisfy the repayment terms. Accordingly, the purpose of the Early Retirement Program Trust Fund is to have money in an investment account whereby withdrawals are available to repay ADB. As such, we confirm the following:

- The ADB loan balance is allocated among the FSM National Government and the State Governments of Pohnpei, Yap, Chuuk and Kosrae.
- Pursuant to paragraph 22 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, we believe the Fund meets the definition of an External Investment Pool as follows:

“An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool.”

#### **Trust Fund for the People of the Federated States of Micronesia**

56. During May 2003, the United States of America and the Federated States of Micronesia (FSM) entered into an agreement and created a trust fund known as the Trust Fund for the People of the Federated States of Micronesia. The purpose of the Fund is to contribute to the economic advancement and long-term self-reliance of the FSM by providing an annual source of revenue after the fiscal year ending September 30, 2023. We confirm to you the following:

- Pursuant to paragraph 65 of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the Fund meets the definition of a permanent fund as follows:

“Permanent funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.”

- The annual investment income and annual investment expenses are allocated amount the FSM National Government, Pohnpei, Yap, Chuuk and Kosrae and the United States of America ("the Participants") based on the percentage of each Participants' total principal and earnings at the beginning of the year over the total Fund balance at the beginning of the year.
- Pursuant to paragraph 22 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, we believe that the Fund meets the definition of an External Investment Pool as follows:

"An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool."

#### **Federal award programs**

57. We are responsible for understanding and complying with and have complied with, the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards.
58. We acknowledge our responsibility for preparing and presenting the schedule of expenditures of federal awards (SEFA) and related disclosures in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
59. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

60. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
61. We are responsible for establishing, designing, implementing, and maintaining, and have established, designed, implemented, and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
62. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
63. We have received no requests from a federal agency to audit one or more specific program as a major program.
64. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement* relating to federal awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.
65. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
66. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
67. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E).
68. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
69. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

70. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
71. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
72. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.
73. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
74. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
75. We have charged costs to federal awards in accordance with applicable cost principles.
76. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
77. We are responsible for and will ensure the reporting package does not contain protected personally identifiable information.
78. We are responsible for and will accurately prepare the auditee section of the Data Collection Form as required by the Uniform Guidance.
79. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
80. We acknowledge that Burger, Comer & Associates assisted in the preparation of the State's financial statements and the related footnote disclosures on information in our trial balance and accounting records. We represent that:
  - Our underlying books and records are maintained by our accounting department and the final trial balance prepared was complete;
  - We agree to the audit adjustments and reclassifications as listed in **Appendices A and B**, all adjusting journal entries posted in the trial balance have been approved by us;

- We have designated a competent individual with adequate skill, knowledge and experience to oversee your services and that our personnel have sufficient financial competence who are able to challenge and review the completeness and accuracy of the financial statements and related footnote disclosures;
- We have reviewed the financial statements and related footnote disclosures for accuracy and completeness; and
- We acknowledge that we have responsibility for them.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Sihna', with a stylized flourish extending to the right.

Sihna Lawrence  
Director  
Department of Treasury and Administration  
Pohnpei State Government

## Appendix A

### Adjusting Journal Entries General Fund

<u>AJE #</u>	<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<b>GENERAL FUND AJE'S</b>				
AJE-23-01 - GF	01-00-00-00000-00-1113	Investment in FSM Bank	78,538.64	
	01-10-29-01095-00-7995	Year End Rev. Accrual		78,538.64
			<u>78,538.64</u>	<u>78,538.64</u>
<i>Adjustment to revise NAV Valuation for BOFSM as of FY23 based on confirmation and third party data.</i>				
AJE-23-02 - GF	01-10-29-01095-00-7815	Dividend income	181,929.87	
	01-00-00-00000-00-1114	Investment in CFC/Dividend		181,929.87
			<u>181,929.87</u>	<u>181,929.87</u>
<i>Adjustment to revise NAV Valuation for CFC as of FY23 based on confirmation and third party data.</i>				
AJE-23-03.1 - GF	99-00-00-00000-00-1040	CIB - General Fund	12,840.35	
	01-00-00-00000-00-3210	State dated checks		12,840.35
			<u>12,840.35</u>	<u>12,840.35</u>
<i>To adjust the general fund bank account for state dated checks as of 9/30/2023.</i>				
AJE-23-03.2 - GF	99-00-00-00000-00-1045	CIB - Grants Assistance Fund	1,484.67	
	01-00-00-00000-00-3210	State dated checks		1,484.67
			<u>1,484.67</u>	<u>1,484.67</u>
<i>To adjust grants assistance fund bank account for state dated checks as of 9/30/2023.</i>				
AJE-23-03.3 - GF	99-00-00-00000-00-1040	CIB - General Fund	128,653.97	
	01-00-00-00000-00-3110	Accounts payable		128,653.97
			<u>128,653.97</u>	<u>128,653.97</u>
<i>To adjust unreleased General fund disbursements as of 9/30/2023.</i>				
AJE-23-03.4 - GF	99-00-00-00000-00-1045	CIB - Sector Grants	18,639.57	
	10-00-00-00000-00-3110	Accounts Payable		150.26
	11-00-00-00000-00-3110	Accounts Payable		324.26
	14-00-00-00000-00-3110	Accounts Payable		2,000.00
	15-00-00-00000-00-3110	Accounts Payable		15,973.79
	16-00-00-00000-00-3110	Accounts Payable		191.26
			<u>18,639.57</u>	<u>18,639.57</u>
	<i>To adjust unreleased grants assistance fund disbursements as of 9/30/2023.</i>			
AJE-23-03.5 - GF	99-00-00-00000-00-1030	CIB Payroll	338,141.90	
	01-00-00-00000-00-3301	Payroll Accrual		108,023.12
	10-00-00-00000-00-3301	Payroll Accrual		78,323.86
	11-00-00-00000-00-3301	Payroll Accrual		69,260.64
	15-00-00-00000-00-3301	Payroll Accrual		22,334.78
	16-00-00-00000-00-3301	Payroll Accrual		985.09
	19-00-00-00000-00-3301	Payroll Accrual		5,203.02
	20-00-00-00000-00-3301	Payroll Accrual		17,833.34
	21-00-00-00000-00-3301	Payroll Accrual		8,170.63
	23-00-00-00000-00-3301	Payroll Accrual		1,545.33
	25-00-00-00000-00-3301	Payroll Accrual		627.71
	80-00-00-00000-00-3301	Payroll Accrual		23,860.34
	87-00-00-00000-00-3301	Payroll Accrual		1,974.04
			<u>338,141.90</u>	<u>338,141.90</u>
	<i>To adjust unreleased payroll checks as of 9/30/2023.</i>			

## Appendix A

### Adjusting Journal Entries, Continued—General Fund

AJE-23-04 - GF	53-00-00-00000-00-1410	A/R FSM FG	113,162.01	
	01-00-00-00000-00-3112	A/P Other not on Subledger	28,454.86	
	01-00-00-00000-00-1830	Rec. from Sales and Rents		35,000.00
	01-10-29-01095-00-8812	Bad Debt		106,616.87
			<u>141,616.87</u>	<u>141,616.87</u>
<i>Per analytical review and client discussion, write-off of uncollectible receivables and unearned revenue.</i>				
AJE-23-05 - GF	01-10-29-01095-00-8812	Bad Debt Expense	229,382.31	
	01-00-00-00000-00-1881	Allow D/A General		229,382.31
			<u>229,382.31</u>	<u>229,382.31</u>
<i>Adjustment to fully provision PTA Interfund receivable.</i>				
AJE-23-06 - GF	01-00-00-00000-00-1812	Lease receivable	247,012.44	
	01-50-58-05001-00-6625	Lease of PFC Premise	25,216.18	
	01-50-58-05001-00-6512	Lease Interest Revenue		103,490.40
	01-00-00-00000-00-3710	Deferred Inflow of Resources		254,494.13
	01-00-00-00000-00-1810	Accrued interest receivable	85,755.91	
			<u>357,984.53</u>	<u>357,984.53</u>
<i>Aggregate adjustment to recognize adjustments to lease receivable and deferred inflows for the PFC lot lease, accrued interest receivables from partial current year payments, and deferred inflows/lease revenue based on expected payment schedule as of 09/30/2023.</i>				
AJE-23-07 - GF	01-00-00-00000-00-1812	Lease receivable	36,075.33	
	01-50-58-05001-00-6625	Lease of PFC Premise		20,157.43
	01-50-58-05001-00-6512	Lease Interest Revenue		5,971.88
	01-00-00-00000-00-3710	Deferred Inflow of Resources		85,055.66
	01-00-00-00000-00-1810	Accrued interest receivable	75,109.64	
			<u>111,184.97</u>	<u>111,184.97</u>
<i>Aggregate adjustment to recognize adjustments to lease receivable and deferred inflows for the PFC EDA lot lease, accrued interest receivables from partial current year payment, and deferred inflows/lease revenue based on expected payment schedule as of 09/30/2023.</i>				
AJE-23-08 - GF	93-00-00-00000-00 1110	Investment - Portfolio	55,496.97	
	93-10-29-98200-23 7995	YE Revenue Accrual		55,496.97
	01-10-29-01095-23 7995	YE Revenue Accrual	92,750.84	
	01-00-00-00000-00 1110	Investments portfolio		92,750.84
			<u>148,247.81</u>	<u>148,247.81</u>
<i>Adjustment to reconcile portfolio investments to supporting statements.</i>				
AJE-23-09 - GF	51 00-00-00000-00 1810	A/R General	134,567.00	
	51 98-98-09830-00 6710	Savings		134,567.00
	01 98-98-09830-00 8270	Cont., Subs. Grants	11,299.01	
	01 00-00-00000-00 3110	Accounts payable		11,299.01
	01 00-00-00000-00 1430	A/R FSM (Shared Revenue)	51,826.00	
	01 00-00-00000-00 1120	Loan Receivable PUC		51,826.00
			<u>197,692.01</u>	<u>197,692.01</u>
<i>Aggregate entry to reconcile component unit due to/due from: (1) Recognize accrual of receivable for FY23 PSHA escrow loan collections (2) recognize remaining payable for FY23 unobligated portion of PSHA budgetary appropriations, and (3) recognize due from FSMNG for direct payment made by PUC to FSMNG for ADB Loans not reimbursed to the PSG's revenue share.</i>				
<b>GENERAL FUND TOTALS</b>			<u><b>1,946,337.47</b></u>	<u><b>1,946,337.47</b></u>

# Appendix A

## Adjusting Journal Entries, Continued—Grants Assistance Fund

<u>AJE #</u>	<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<b>GRANTS ASSISTANCE FUND AJE'S</b>				
AJE-23-01 - GAF	20-00-00-00000-00-1511	Allow D/A Other Govt	133,370.81	
	01-10-29-01095-00-8812	Bad Debt Expense	797,870.16	
	20-00-00-00000-00-1310	A/R U.S. Federal Direct		800,950.53
	20-00-00-00000-00-1410	A/R FSM FG		130,290.44
			<u>931,240.97</u>	<u>931,240.97</u>
	<i>Adjustment to write-off the historical balance of A/R for fund 20.</i>			
AJE-23-02 - GAF	20-60-60-20010-21-7995	YE Rev Accrual	2,187.42	
	20-60-60-20010-22-7995	YE Rev Accrual	3,589.13	
	20-70-75-21010-22-7995	YE Rev Accrual	3,336.70	
	20-70-75-21200-22-7995	YE Rev Accrual	577.49	
	20-70-75-21202-22-7995	YE Rev Accrual	1,258.60	
	20-70-75-21251-22-7995	YE Rev Accrual	6,539.22	
	20-70-75-80145-21-7995	YE Rev Accrual	143.80	
	20-04-10-00426-22-7995	YE Rev Accrual	240,000.00	
	20-04-10-00426-21-7995	YE Rev Accrual	156,593.37	
	20-00-00-00000-00-1310	A/R U.S. Federal Direct		414,225.73
			<u>414,225.73</u>	<u>414,225.73</u>
	<i>Adjustment to accrue A/R for Fund 20.</i>			
AJE-23-03 - GAF	14-10-29-14000-23-7050	Cmpct II Revenues		99,500.00
	15-10-29-15000-21-7050	Cmpct II Revenues		
	16-10-29-16000-22-7050	Cmpct II Revenues	376,627.00	
	19-10-29-19000-22-7050	COMPACT II REVENUE	30,000.00	
	01-10-29-01095-00-8812	Bad debt	69,533.97	
				376,660.97
			<u>476,160.97</u>	<u>476,160.97</u>
	<i>Adjustment to reclassify Compact II revenue (before closing CAJE's) to match FSMNG COMBAL schedule.</i>			
AJE-23-04 - GAF	10 00-00-00000-00-4110	Fund balance		1,003,989.00
	11 00-00-00000-00-4110	Fund balance	1,069,657.00	
	12 00-00-00000-00-4110	Fund balance	20,744.00	
	14 00-00-00000-00-4110	Fund balance		11,460.00
	15 00-00-00000-00-4110	Fund balance		166,914.00
	16 00-00-00000-00-4110	Fund balance	185,340.00	
	17 00-00-00000-00-4110	Fund balance	252,586.16	
	01 10-29-01095-00-8812	Bad Debt Expense		345,964.16
	10 10-29-01095-23-8910	Operating transfer out	963,072.65	
	11 10-29-01095-23-7910	Operating transfer in		1,140,469.68
	12 10-29-01095-23-7910	Operating transfer in		20,744.00
	13 10-29-01095-23-8910	Operating transfer out	537.55	
	14 10-29-01095-23-8910	Operating transfer out	12,714.96	
	15 10-29-01095-23-8910	Operating transfer out	527,077.17	
	16 10-29-01095-23-7910	Operating transfer in		155,542.97
	17 10-29-01095-23-7910	Operating transfer in		327,403.11
	19 10-29-01095-23-8910	Operating transfer out	556,422.20	
	01 10-29-01095-23-7910	Operating transfer-in		415,664.77



## Appendix A

### Adjusting Journal Entries, Continued—Grants Assistance Fund

AIE-23-04 - GAF	10 00-00-00000-99-1999	Due To/Due From	40,916.35	
Continued	11 00-00-00000-99-1999	Due To/Due From	70,812.68	
	12 00-00-00000-99-1999	Due To/Due From		
	13 00-00-00000-99-1999	Due To/Due From		537.55
	14 00-00-00000-99-1999	Due To/Due From		1,254.96
	15 00-00-00000-99-1999	Due To/Due From		360,163.17
	16 00-00-00000-99-1999	Due To/Due From		29,797.03
	17 00-00-00000-99-1999	Created by posting	74,816.95	
	19 00-00-00000-99-1999	Due To/Due From		556,422.20
	01 00-00-00000-99-1999	Due To/Due From	761,628.93	
	99 00-00-00000-10-1999	Due To/Due From		40,916.35
	99 00-00-00000-11-1999	Due To/Due From		70,812.68
	99 00-00-00000-12-1999	Due To/Due From		
	99 00-00-00000-13-1999	Due To/Due From	537.55	
	99 00-00-00000-14-1999	Due To/Due From	1,254.96	
	99 00-00-00000-15-1999	Due To/Due From	360,163.17	
	99 00-00-00000-16-1999	Due To/Due From	29,797.03	
	99 00-00-00000-17-1999	Created by posting		74,816.95
	99 00-00-00000-19-1999	Created by posting	556,422.20	
	99 00-00-00000-01-1999	Due To/Due From		761,628.93
	21 00-00-00000-00-1310	Direct Grants		332,867.34
	21 07-15-20031-23-7995	Year End Rev Accrual		35,317.82
	21 31-44-24207-21-7995	Year End Rev Accrual	6,444.92	
	21 31-44-24207-23-7995	Year End Rev Accrual		22,680.00
	21 70-70-36001-17-7995	Year End Rev Accrual	7,497.10	
	21 70-70-36001-18-7995	Year End Rev Accrual		11,442.56
	21 70-70-37100-22-7995	Year End Rev Accrual	56,307.61	
	21 70-70-37100-23-7995	Year End Rev Accrual	17,159.89	
	21 70-70-37134-22-7995	Year End Rev Accrual	379,147.93	
	21 70-70-37134-23-7995	Year End Rev Accrual		302,357.03
	21 70-70-37135-22-7995	Year End Rev Accrual		26,437.00
	21 70-70-37136-22-7995	Year End Rev Accrual	245,000.00	
	21 90-90-37140-22-7995	Year End Rev Accrual		28,786.14
	21 04-10-39001-21-7995	Year End Rev Accrual	48,330.44	
			<u>6,244,389.40</u>	<u>6,244,389.40</u>

*Adjustment to recognize (1) prior period adjustment for FSMNG-PSG closeout schedule, (2) recognize the closure of sector fund balances, and (3) estimated accrual for Fund 21.*

#### GRANT ASSISTANCE FUND TOTALS

<u>8,066,017.07</u>	<u>8,066,017.07</u>
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## Appendix A

### Adjusting Journal Entries —Other Governmental Fund

<u>AJE #</u>	<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<b>OTHER GOVERNMENTAL FUNDS (NON-MAJOR FUND) AJE'S</b>				
AJE-23-01 - NMF	87-00-00-00000-00-3710	Deferred Inflow of Resources		43,641.20
	87-30-45-89700-23-6511	Lease Revenue	2,608.82	
	87-30-45-89700-00-6527	Land leases (survey and mapping)	23,171.17	
	87-30-45-89700-23-6512	Interest Revenue		51,725.08
	87-00-00-00000-00-1812	Lease Receivable	62,629.75	
	87-00-00-00000-00-1813	Allowance		76,504.82
	01-10-29-01095-00-8812	Bad debt	75,973.86	
	87-00-00-00000-00-1810	Accrued interest receivable	25,759.96	
	87-00-00-00000-00-3710	Unearned lease revenue (payable)		18,272.46
			<u>190,143.56</u>	<u>190,143.56</u>
<i>Aggregate PPLT Land entry to - (1) correct LR, AIR, Deferred inflows, lease revenue and lease interest, (2) recognize additional LR and provision uncollectible amounts.</i>				
<b>OTHER GOVERNMENTAL FUND TOTALS</b>			<u>190,143.56</u>	<u>190,143.56</u>

## Appendix A

### Adjusting Journal Entries— Government Wide

<u>AJE #</u>	<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<b>GOVERNMENT WIDE AJE'S</b>				
AJE-23-01 - GW	01-20-36-02010-23-8713	Lease interest	6,157.25	
	01-20-36-02010-00-8232	Rent expense		6,157.25
	92-00-00-00000-00-3291	Lease liabilities-non-current	29,842.75	
	92-00-00-00000-00-2925	Amounts T/B Prvd		29,842.75
	95-00-00-00000-00-8309	Amortization expense - Right-to-use asset	29,842.75	
	95-00-00-00000-00-5608	Accumulated amortization - Right-to-use asset		29,842.75
			<u>65,842.75</u>	<u>65,842.75</u>
<i>Adjustment to recognize current year lease liability amortization entries.</i>				
AJE-23-02 - GW	95-00-00-00000-00-5602	Machinery, Equipment, Others	248,791.00	
	95-00-00-00000-00-8704	Capital Outlay-Health Services		240,930.00
	95-00-00-00000-00-8701	Capital Outlay-General Government	30,278.00	
	95-00-00-00000-00-7100	Net Assets		26,699.00
	95-00-00-00000-00-8301	Depreciation-General Govt	15,450.00	
	95-00-00-00000-00-8302	Depreciation Land & Resources		772.00
	95-00-00-00000-00-8304	Depreciation Education	7,781.00	
	95-00-00-00000-00-8305	Depreciation Health Services	8,768.00	
	95-00-00-00000-00-8306	Depreciation Public Safety		4,260.00
	95-00-00-00000-00-8308	Depreciation B and C, Others	25,349.00	
	95-00-00-00000-00-5604	Accum. Depreciation-Buildings	13,914.00	
	95-00-00-00000-00-5605	Accum. Dep Machinery Equipment		52,083.00
	95-00-00-00000-00-5606	Accum. Dep- Infrastructure		25,587.00
			<u>350,331.00</u>	<u>350,331.00</u>
<i>To record adjustment to capital assets as of 9/30/2023.</i>				
<b>GOVERNMENT WIDE TOTALS</b>			<u><b>416,173.75</b></u>	<u><b>416,173.75</b></u>

**Appendix B****Reclassification Adjusting Journal Entries – General Fund**

<u>RAJE #</u>	<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<b>GENERAL FUND RAJE'S</b>				
RAJE-23-01 - GF	01-00-00-00000-00-4110	Fund balance	1,875,455.16	
	01-10-29-01095-00-6030	Income taxes		690,759.79
	01-10-29-01095-00-6050	GRT		573,372.92
	01-10-29-01095-00-6060	20% sharing		611,322.45
			<u>1,875,455.16</u>	<u>1,875,455.16</u>
<i>Adjustment to reconcile to FSM revenue sharing confirmation before year-end accruals.</i>				
<b>GENERAL FUND TOTALS</b>			<u><b>1,875,455.16</b></u>	<u><b>1,875,455.16</b></u>

**Reclassification Adjusting Journal Entries – Grants Assistance Fund**

<u>RAJE #</u>	<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<b>GRANTS ASSISTANCE FUND RAJE'S</b>				
RAJE-23-01 - GAF	20-60-60-20010-22-8016	COLA	76,617.84	
	20-60-60-20010-22-8020	HIth Ins	13,323.96	
	20-60-60-20010-22-8021	Life Ins	5,699.94	
	20-60-60-20010-22-8050	SS Tax	17,957.28	
	20-60-60-20010-23-8016	COLA	63,042.16	
	20-60-60-20010-23-8020	HIth Ins	10,963.12	
	20-60-60-20010-23-8021	Life Ins	4,689.99	
	20-60-60-20010-23-8050	SS Tax	14,775.49	
	20-60-60-20010-22-8010	Salaries		113,599.03
	20-60-60-20010-23-8010	Salaries		93,470.75
			<u>207,069.78</u>	<u>207,069.78</u>
	<i>Reclassification adjustment to correct fund 20 insurance and fringe benefits.</i>			
RAJE-23-02 - GAF	20-60-60-20010-22-8016	COLA	32,732.77	
	20-60-60-20010-22-8010	Salaries		32,732.77
			<u>32,732.77</u>	<u>32,732.77</u>
<i>Reclassification adjustment to correct JV 230265.</i>				
RAJE-23-03-GAF	20-70-75-21010-22 8010	Salaries	29,277.17	
	20-70-75-21010-22 7995	Year end rev. accrual		29,277.17
			<u>29,277.17</u>	<u>29,277.17</u>
<i>Reclassification adjustment to correct credit balance.</i>				
<b>GRANT ASSISTANCE FUND TOTALS</b>			<u><b>239,802.55</b></u>	<u><b>239,802.55</b></u>

## Appendix C

### Passed Adjusting Journal Entries

PAJE #	Account Name	Financial Statement Effect—Amount of Over (Under) Statement of:			
		Total Assets	Total Liabilities	Equity	Change in net assets
		Debit (Credit)	Debit (Credit)	Debit (Credit)	Debit (Credit)
<b>GENERAL FUND OP UNIT PAJE'S</b>					
#1	Salaries - Fund 01				84,777.03
	Payroll Accrual - Fund 01		(84,777.03)		
	<i>Passed adjustment to record general fund payroll accrual.</i>				
#2	CIB - General Fund	62,484.00			
	Fund balance			(62,484.00)	
	<i>Passed adjustment to correct subsequently voided GF check included in outstanding checks on bank reconciliation.</i>				
<b>GENERAL FUND TOTALS</b>		<b>62,484.00</b>	<b>(84,777.03)</b>	<b>(62,484.00)</b>	<b>84,777.03</b>

PAJE #	Account Name	Financial Statement Effect—Amount of Over (Under) Statement of:			
		Total Assets	Total Liabilities	Equity	Change in net assets
<b>GRANTS ASSISTANCE FUND OP UNIT PAJE'S</b>					
#1	Salaries - Fund 10				(148,061.85)
	Salaries - Fund 11				63,274.54
	Salaries - Fund 12				7,372.41
	Salaries - Fund 14				(7,328.10)
	Salaries - Fund 15				14,709.55
	Salaries - Fund 16				(5,800.52)
	Salaries - Fund 19				13,680.67
	Salaries - Fund 21				8,248.97
	Salaries - Fund 23				1,298.89
	Salaries - Fund 25				784.07
	Payroll Accrual - Fund 10		148,061.85		
	Payroll Accrual - Fund 11		(63,274.54)		
	Payroll Accrual - Fund 12		(7,372.41)		
	Payroll Accrual - Fund 14		7,328.10		
	Payroll Accrual - Fund 15		(14,709.55)		
	Payroll Accrual - Fund 16		5,800.52		
	Payroll Accrual - Fund 19		(13,680.67)		
	Payroll Accrual - Fund 21		(8,248.97)		
	Payroll Accrual - Fund 23		(1,298.89)		
	Payroll Accrual - Fund 25		(784.07)		
	<i>Passed adjustment to record grants assistance fund payroll accrual.</i>				
<b>GRANT ASSISTANCE FUND TOTALS</b>		<b>-</b>	<b>51,821.38</b>	<b>-</b>	<b>(51,821.38)</b>

# Appendix C

## Passed Adjusting Journal Entries, Continued


Financial Statement Effect—Amount of Over (Under) Statement of:					
PAJE #	Account Name	Total Assets	Total Liabilities	Equity	Change in net assets
COMPACT TRUST FUND OP UNIT PAJE'S					

		Financial Statement Effect—Amount of Over (Under) Statement of:			
PAJE #	Account Name	Total Assets	Total Liabilities	Equity	Change in net assets
OTHER GOVERNMENTAL FUNDS (NON-MAJOR FUND) PAJE'S					
#1	Lease receivable	38,566.84			
	Fund Balance Surplus				(17,420.18)
	Deferred Inflow of Resources		(23,004.28)		
	Lease Revenue			(1,624.91)	
	Public Land Leases			8,444.84	
	Lease Interest Revenue			(4,962.32)	
	Passed initial recognition entry for low-value PPLT				
#2	Salaries - Fund 37				(2,862.61)
	Salaries - Fund 87				2,176.19
	Payroll Accrual - Fund 37		2,862.61		
	Payroll Accrual - Fund 87		(2,176.19)		
	Passed adjustment to record nonmajor payroll				
OTHER GOVERNMENTAL FUND TOTALS		38,566.84	(22,317.86)	1,857.61	(18,106.60)

		Financial Statement Effect—Amount of Over (Under) Statement of:			
PAJE #	Account Name	Total Assets	Total Liabilities	Equity	Change in net assets
GOVERNMENTAL WIDE PAJE'S					
Grand Totals		101,050.84	(55,273.52)	(60,626.39)	14,849.06

We have reviewed the adjusting journal entries, reclassification entries, and passed uncorrected misstatements summarized above. These journal entries are either the result of: error or judgements wherein the aggregate impact was not considered significant or material to the financial statements as a whole; and not a result of fraud, irregularities, or illegal acts.

Very truly yours,

  
 Sihna Lawrence  
 Director  
 Department of Treasury and Administration  
 Pohnpei State Government