

## Accessible Version



### Single Audit Analysis: Federated States of Micronesia and the Republic of the Marshall Islands: (GAO-16-760SP), an E-supplement to GAO-16-550T

[Read the Full Report:](#) Compacts of Free Association: Issues Associated with Implementation in Palau, Micronesia and the Marshall Islands (GAO-16-550T)

### Background Information

The Single Audit Act of 1984, as amended,<sup>1</sup> is intended to improve accountability, including effective internal control over federal awards<sup>2</sup> administered by state and local governments and nonprofit organizations.<sup>3</sup> The Single Audit Act, as implemented by the Office of Management and Budget (OMB) requires each non-federal entity that expends a total amount of federal awards equal to or in excess of a threshold amount to have a single audit for a fiscal year.<sup>4</sup> The single audit is an organization-wide financial statement audit that includes the audit of the Schedule of Expenditures of Federal Awards and also focuses on internal controls over financial reporting and the award recipient's compliance with laws and regulations governing the federal awards received.<sup>5</sup> Single audits are a critical element in the federal government's ability to ensure that federal funds are properly used and that federal agencies have information to fulfill their oversight responsibility for the funds that they award to nonfederal entities. Auditors are required to provide opinions (or disclaimers of opinion, as appropriate) as to whether (1) the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;<sup>6</sup> (2) the schedule of expenditures of federal awards<sup>7</sup> is presented fairly in all material respects in relation to the basic financial

---

<sup>1</sup>31 U.S.C. §7501 et seq.

<sup>2</sup>Federal awards are federal financial assistance and cost-reimbursement contracts that nonfederal entities receive directly from federal awarding agencies or indirectly from pass-through entities. Federal financial assistance is assistance that nonfederal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. 31 U.S.C. §7502 (a)(4)(5).

<sup>3</sup>S.Rep. 104-266 at 2 (1996).

<sup>4</sup>For the review period covered by this e-supplement, the threshold amount was \$500,000. After the conclusion of the review period covered by this report, OMB raised the threshold from \$500,000 to \$750,000, as permitted by the Single Audit Act. According to OMB, the increased threshold reduces the audit burden for approximately 5,000 non-federal entities while maintaining Single Audit coverage over 99 percent of the federal dollars currently covered.

<sup>5</sup>OMB Circular No. A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, established polices for federal agencies to use in implementing the Single Audit Act and provides an administrative foundation for consistent and uniform audit requirements for nonfederal entities administering federal awards. OMB Circular A-133, which was in effect for this review period, has been superseded by the Uniform Guidance described below, but its requirements remain largely intact in the new guidance.

<sup>6</sup>Generally accepted accounting principles are the standards and conventions for preparing financial statements, including recognition and measurement of assets, liabilities, revenue, and expenses.

<sup>7</sup>The Schedule of Expenditures of Federal Awards reports the expenditure of federal awards for the period covered by the award recipients' financial statements. This schedule has a number of reporting requirements, including reporting the individual federal programs by federal agency; and providing the total federal awards expended for each individual

statements, as a whole; and (3) the award recipient complied with requirements that could have a material and direct effect on major federal programs. In December 2014, OMB implemented new single audit guidance in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards effective for audits of nonfederal entities for fiscal years beginning on or after December 26, 2014.<sup>8</sup>

The auditor can issue different opinions when reporting on the fairness of the presentation of financial statements in accordance with generally accepted accounting principles, the fairness of the presentation of the schedule of federal expenditures, and award recipients' compliance with the requirements that could have a material and direct effect on major federal programs. Award recipients' auditors may issue four types of audit opinions on the financial statements and the schedule of federal expenditures:<sup>9</sup>

- An unqualified or unmodified opinion is given when the auditor is reasonably assured that the financial statements are free of material misstatements.<sup>10</sup>
- A qualified opinion is given when the auditor (1) obtains sufficient appropriate audit evidence but concludes that misstatements are material, but not pervasive, to the financial statements; or (2) was unable to obtain sufficient appropriate audit evidence, and the possible effects on the financial statements of undetected misstatements, if any, could be material, but not pervasive. The effect of the auditors' qualified opinion can be significant enough to reduce the usefulness and reliability of the auditee's financial statements.
- An adverse opinion is given when the auditor concludes, after obtaining sufficient, appropriate evidence, that misstatements are both material and pervasive to the financial statements.
- A disclaimer of opinion is given when the auditor was unable to obtain sufficient appropriate audit evidence and when the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive, and therefore an opinion cannot be expressed on the financial statements.

During the course of the audit, the auditor reports any material weaknesses or significant deficiencies in internal controls over financial reporting<sup>11</sup> or material noncompliance with the requirements for major federal programs.

- A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

---

federal program and the Catalogue of Federal Domestic Assistance (CFDA) number or other identifying number if the CFDA information is not available.

<sup>8</sup>See 79 Fed. Reg. 75871 (Dec. 19, 2014). Prior to OMB's new guidance, auditees were required to follow OMB Circular No. A-133, "Audits of States, Local Governments, and Non-profit Organizations." The Uniform Guidance has combined and standardized requirements that were previously contained in eight separate instructional documents referred to as OMB Circulars. Circular A-21: Cost Principles for Educational Institutions; Circular A-50: Audit Follow-up; Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments; Circular A-89: Catalog of Federal Domestic Assistance; Circular A-102: Grants and Cooperative Agreements with State and Local Governments; Circular A-110: Uniform Administrative Requirements of Grants and Other Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations; Circular A-122: Cost Principles for Non-Profit Organizations; and Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations.

<sup>9</sup>The types of reports on compliance are similar, except that the materiality and pervasiveness are measured in relation to the effect on compliance rather than the effect on the financial statements.

<sup>10</sup>The American Institute of Certified Public Accountants (AU-Section 700) revised the term "unqualified opinion" and required auditors to use the term "unmodified opinion" for fiscal years ending after December 15, 2012.

<sup>11</sup>Findings relating to the financial statements are required to be reported in accordance with generally accepted government auditing standards.

- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those in charge of governance.
- A material noncompliance is noncompliance with the provisions of federal statutes, regulations, or the terms and conditions of federal awards that is material in relation to a type of compliance requirement for a major program identified in the compliance supplement.

The Single Audit Act requires award recipients to address internal control weaknesses and material noncompliance in a corrective action plan,<sup>12</sup> which is to be submitted with the audit to the Federal Audit Clearinghouse (FAC).<sup>13</sup> The Act further requires that single audits be performed in accordance with generally accepted government audit standards issued by GAO.<sup>14</sup> These standards provide a framework for conducting high-quality financial audits with competence, integrity, objectivity, and independence. The award recipient is required to submit its single audit report to the FAC within 30 calendar days after receipt of the auditor's report, or within nine months after the close of the entity's fiscal year, whichever is earlier.<sup>15</sup>

To examine the status of the accountability of the grants provided to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) since GAO reported in September 2013,<sup>16</sup> we reviewed the single audit reports of the RMI and FSM national governments, and the states of Pohnpei and Chuuk, for fiscal years 2012 through 2014. We also reviewed the FSM single audit reports for the FSM states of Kosrae and Yap for fiscal years 2006 through 2014. In addition, our review of the single audit reports included identifying the type of financial statement audit opinions issued, the type of audit opinion issued on the Schedule of Expenditures of Federal Awards, and the type of audit opinion issued on compliance with requirements for major federal programs. Further, we reviewed the material weaknesses and significant deficiencies on (1) internal controls over financial reporting and (2) internal controls over compliance with federal awards. We did not independently assess the quality of the audits or the reliability of the audit findings. We also determined the timeliness of submissions of the single audit report by the insular area governments using the FAC's "form date", which is the most recent date that the FAC received the required SF-SAC data collection form.

We conducted this performance audit between May 2016 and September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## National Government of Federated States of Micronesia and FSM States

Financial accountability at the National Government of Federated States of Micronesia and FSM states remains a concern due to the numerous qualified opinions on financial statements, the number of material weaknesses reported in the internal controls over financial reporting, and the number of qualified opinions on compliance with requirements for major federal programs reported in the award recipient's auditors' reports.

---

<sup>12</sup>31 U.S.C. §7502(i).

<sup>13</sup>The FAC operates on behalf of OMB. Its primary purposes are to distribute single audit reporting packages to federal agencies; support OMB oversight and assessment of federal award audit requirements; maintain a public database of completed audits, and help auditors and auditees minimize the reporting burden of complying with audit requirements.

<sup>14</sup>GAO, *Government Auditing Standards*, 2011 Revision, [GAO-12-331G](#) (Washington, D.C. December 2011).

<sup>15</sup> OMB Circular A-133.

<sup>16</sup> GAO, *Compacts of Free Association, Micronesia and the Marshall Islands Continue to Face Challenges Measuring Progress and Ensuring Accountability*, [GAO-13-675](#) (Washington, D.C. Sept. 20, 2013).

As shown in table 1, from fiscal years 2006 through 2014, the National Government of the Federated States of Micronesia and the individual FSM states (Chuuk, Pohnpei, Kosrae, and Yap) submitted 45 single audit reports to the FAC. Of these, the auditors reported that 24 received unqualified or unmodified financial statement opinions. Specifically, for 2014, the FSM, Pohnpei, and Kosrae received unmodified (previously unqualified) opinions.

**Table 1: Financial Statement Audit Opinions for the Federated States of Micronesia (FSM), Fiscal Years 2006 through 2014**

Fiscal Year	Type of Opinion				
	FSM	Chuuk	Pohnpei	Kosrae	Yap
2006	Qualified	Disclaimer	Unqualified	Unqualified	Unqualified and adverse
2007	Qualified	Qualified	Unqualified	Unqualified	Qualified and adverse
2008	Qualified	Qualified	Unqualified	Unqualified	Qualified and adverse
2009	Unqualified	Qualified	Unqualified	Unqualified	Unqualified
2010	Unqualified	Qualified	Unqualified	Unqualified	Unqualified
2011	Unqualified	Qualified	Unqualified	Unqualified	Qualified
2012	Unqualified	Qualified	Unqualified	Unqualified	Unqualified and adverse <sup>a</sup>
2013	Unmodified	Unmodified and qualified <sup>b</sup>	Unmodified	Unmodified	Unmodified and adverse <sup>a</sup>
2014	Unmodified	Unmodified and qualified <sup>c</sup>	Unmodified	Unmodified	Unmodified and adverse <sup>a</sup>

Source: GAO analysis of FSM single audit reports. | GAO-16-760SP

Notes: An unqualified or unmodified opinion is given when the auditor is reasonably assured that the financial statements are free of material misstatements. Organization-wide financial statements may also include departments, agencies, and other organizational units that have separate audit opinions. In the case of Chuuk and Yap, the auditors issued separate audit opinions on certain funds or activities.

<sup>a</sup>Yap auditors issued an unqualified and adverse opinion. Due to the omission of the Yap Fishing Authority and the Gagil-Tomil Water Authority, the audit report included an adverse opinion.

<sup>b</sup>For 2013, Chuuk auditors issued two opinions because of Chuuk's inability to identify the cause of significant, unsubstantiated differences between the General Fund general ledger and bank reconciliation balances. The unsubstantiated difference was \$856,208 as of September 30, 2013. The auditors were unable to obtain sufficient appropriate audit evidence to confirm that all bank transactions had been properly recorded. Further, the auditors reported that Chuuk had not recorded a liability for land leases and related claims payable in the governmental activities fund and the General Fund. Accordingly, Chuuk had not recorded an expense for the current period change in that liability.

<sup>c</sup>For 2014, Chuuk's auditors issued two opinions because of Chuuk's inability to identify the cause of significant, unsubstantiated differences between the General Fund general ledger and bank reconciliation balances. The unsubstantiated difference was \$2,880,663 as of September 30, 2014. The auditors were unable to obtain sufficient appropriate audit evidence to confirm that all bank transactions had been properly recorded. Further, the auditors reported that Chuuk had not recorded a liability for land leases and related claims payable in the governmental activities fund and the General Fund. Accordingly, Chuuk had not recorded an expense for the current period change in that liability.

For the fiscal year 2014 financial statements, Chuuk's auditors issued two audit opinions. In their unmodified opinion, the financial statements—including the Grants Assistance Fund, the Compact Trust fund, and other fund information—represented fairly the financial position of the state of Chuuk and the changes in financial position for the year then ended. The auditors issued a qualified opinion on Chuuk's Governmental Activities and General Fund because of Chuuk's inability to identify the cause of significant, unsubstantiated differences between the General Fund general ledger and bank reconciliation balances. The unsubstantiated difference was \$2,880,663 as of September 30, 2014. The auditors reported that proper reconciliation is critical to maintaining accurate financial records and minimizing the opportunity for misappropriation of funds or fraudulent activities. Similar findings were reported in 2012 and in 2013.

Yap's auditors issued an unmodified opinion and an adverse opinion. The auditors issued an unmodified opinion because the financial statements presented fairly the financial position of the state's governmental

activities, business activities, and other fund information. Due to the omission of the Yap Fishing Authority and the Gagil-Tomil Water Authority, the audit report included an adverse opinion.

Table 2 shows the audit opinions on the Schedule of Expenditures for Federal Awards as required by OMB Circular A-133. Of the 45 single audit reports, 38 included an unqualified or unmodified opinion. For 2014, FSM and the four states received unmodified opinions.

**Table 2: Opinions Rendered on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 for the Federated States of Micronesia (FSM), Fiscal Years 2006 through 2014**

**Type of Opinion**

<b>Fiscal Year</b>	<b>FSM</b>	<b>Chuuk</b>	<b>Pohnpei</b>	<b>Kosrae</b>	<b>Yap</b>
2006	Qualified	Disclaimer	Unqualified	Unqualified	Unqualified
2007	Qualified	Disclaimer	Unqualified	Unqualified	Unqualified
2008	Qualified	Disclaimer	Unqualified	Unqualified	Unqualified
2009	Unqualified	Disclaimer	Unqualified	Unqualified	Unqualified
2010	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
2011	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
2012	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
2013	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
2014	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified

Source: GAO analysis of FSM single audit reports. | GAO-16-760SP

Table 3 shows the number of material weaknesses and significant deficiencies reported on the internal controls over the FSM's and the states' financial reporting for fiscal years 2006 through 2014. Although the FSM received unmodified opinions on the schedule of expenditures of federal awards, material weaknesses and significant deficiencies were identified.<sup>17</sup> Of the 45 single audit reports, only the Pohnpei fiscal year 2006 single audit report and the Kosrae fiscal year 2014 single audit report did not report any material weaknesses or significant deficiencies. The other 43 single audit reports reported issues related to the design or operation of internal controls that could adversely affect the entity's ability to produce financial statements that fairly represent the entity's financial condition and the changes in financial position for the year ended. The number of material weaknesses and significant deficiencies has decreased since 2006, but concerns remain, including the lack of documents related to procurement actions such as those documenting the rationale for vendor selection and the lack of aggressive efforts to collect travel advances.

<sup>17</sup>An award recipient, as shown in table 2, can receive an unmodified opinion even though a number of material weaknesses and significant deficiencies over financial reporting have been identified, as shown in table 3.

**Table 3: Number of Material Weaknesses and Significant Deficiencies Reported on Internal Controls over Financial Reporting in Single Audit Reports for the Federated States of Micronesia (FSM) National Government and States, Fiscal Years 2006 through 2014**

<b>Fiscal Year</b>	<b>State</b>	<b>Material weaknesses</b>	<b>Significant deficiencies</b>	<b>Total</b>
2006	FSM national government <sup>a</sup>	3	9	<b>12</b>
	Chuuk	18	0	<b>18</b>
	Pohnpei	0	0	<b>0</b>
	Kosrae	4	4	<b>8</b>
	Yap	0	3	<b>3</b>
	<b>Total</b>		<b>25</b>	<b>16</b>
2007	<b>FSM national government<sup>a</sup></b>	14	0	<b>14</b>
	Chuuk	8	4	<b>12</b>
	Pohnpei	0	1	<b>1</b>
	Kosrae	0	3	<b>3</b>
	Yap	0	1	<b>1</b>
	<b>Total</b>		<b>22</b>	<b>9</b>
2008	FSM national government <sup>a</sup>	6	0	<b>6</b>
	Chuuk	3	0	<b>3</b>
	Pohnpei	0	1	<b>1</b>
	Kosrae	0	2	<b>2</b>
	Yap	2	2	<b>4</b>
	<b>Total</b>		<b>11</b>	<b>5</b>
2009	FSM national government <sup>a</sup>	5	0	<b>5</b>
	Chuuk	3	0	<b>3</b>
	Pohnpei	0	1	<b>1</b>
	Kosrae	0	2	<b>2</b>
	Yap	3	1	<b>4</b>
	<b>Total</b>		<b>11</b>	<b>4</b>
2010	FSM national government <sup>a</sup>	7	1	<b>8</b>
	Chuuk	1	0	<b>1</b>
	Pohnpei	0	1	<b>1</b>
	Kosrae	0	1	<b>1</b>
	Yap	0	2	<b>2</b>
	<b>Total</b>		<b>8</b>	<b>5</b>
2011	FSM national government <sup>a</sup>	4	3	<b>7</b>
	Chuuk	3	2	<b>5</b>
	Pohnpei	0	1	<b>1</b>
	Kosrae	0	1	<b>1</b>

<b>Fiscal Year</b>	<b>State</b>	<b>Material weaknesses</b>	<b>Significant deficiencies</b>	<b>Total</b>
	Yap	2	1	3
	<b>Total</b>	<b>9</b>	<b>8</b>	<b>17</b>
2012	FSM national government <sup>a</sup>	3	0	3
	Chuuk	3	2	5
	Pohnpei	0	1	1
	Kosrae	0	1	1
	Yap	4	0	4
	<b>Total</b>	<b>10</b>	<b>4</b>	<b>14</b>
2013	FSM national government <sup>a</sup>	5	0	5
	Chuuk	3	2	5
	Pohnpei	0	3	3
	Kosrae	0	1	1
	Yap	1	0	1
	<b>Total</b>	<b>9</b>	<b>6</b>	<b>15</b>
2014	FSM national government <sup>a</sup>	6	0	6
	Chuuk	2	0	2
	Pohnpei	3	0	3
	Kosrae	0	0	0
	Yap	1	0	1
	<b>Total</b>	<b>12</b>	<b>0</b>	<b>12</b>

Source: GAO analysis of FSM single audit reports. | GAO-16-760SP

<sup>a</sup>Data do not include findings of the component units of the FSM national government, such as the College of Micronesia.

Table 4 shows the audit opinions rendered on the FSM national government and state governments' compliance with requirements for major federal programs for each fiscal year (2006 through 2014).<sup>18</sup> Of the 45 opinions reported, 15 received an unqualified or unmodified opinion. In fiscal year 2014, the FSM, Chuuk, Pohnpei, and Yap received qualified opinions.

**Table 4: Opinions Rendered on Compliance with Requirements for Major Federal Programs for Fiscal Years 2006 through 2014 for the Federated States of Micronesia (FSM), Fiscal Years 2006 through 2014**

**Type of Opinion**

Fiscal Year	FSM	Chuuk	Pohnpei	Kosrae	Yap
2006	Qualified	Qualified	Qualified	Qualified	Qualified
2007	Qualified	Qualified	Qualified	Qualified	Qualified
2008	Qualified	Qualified	Unqualified	Unqualified	Qualified
2009	Qualified	Qualified	Unqualified	Unqualified	Qualified
2010	Qualified	Qualified	Unqualified	Unqualified	Qualified
2011	Qualified	Unqualified	Unqualified	Unqualified	Qualified
2012	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
2013	Qualified	Qualified	Qualified	Unmodified	Qualified
2014	Qualified	Qualified	Qualified	Unmodified	Qualified

Source: GAO analysis of FSM single audit reports. | GAO-16-760 SP

Table 5 reports the material weaknesses and significant deficiencies for the FSM and the states' internal controls over compliance with requirements for major programs for fiscal years 2006 through 2014.<sup>19</sup> Of 45 financial statements, 40 reported material weaknesses or significant deficiencies in internal controls over major federal programs. Kosrae's financial statements in fiscal years 2009, 2010, 2011, 2013, and 2014 did not report any material weaknesses; the fiscal year 2014 single audit reported that Kosrae qualified as a low-risk auditee.<sup>20</sup> In fiscal year 2014, the FSM's single audit reported material weaknesses in the FSM's and the other states' internal control over compliance in several areas, including

- procurement (e.g., lack of evidence to support competitive procurement practices);
- cash management (e.g., lack of evidence to support cash transfer to the FSM national government); and
- equipment and real property management (e.g., no formal maintenance procedures for equipment had been established, and the auditors could not determine the manner in which maintenance responsibilities were carried out. Additionally, a physical inventory count to survey the status of property and equipment was not completed in the last 2 years).

<sup>18</sup>OMB Circular No. A-133 requires auditors to report on compliance, which includes an opinion (or disclaimer of opinion) as to whether the entity being audited complied with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on the federal program.

<sup>19</sup>For determining an opinion on compliance with requirements for major programs, the opinion is based on the extent of the material weaknesses and significant deficiencies observed by the auditors during the course of the audit.

<sup>20</sup>A award recipient qualifies as a low-risk auditee if it submits the single audit report submission within the timeframe specified, if the auditor's opinion on the financial statements in relation to the opinion on the schedule of expenditures of federal awards was unmodified, and if there were no deficiencies in internal control that were identified as material weakness under the requirements of generally accepted government auditing standards, among other requirements. §7501 et seq

**Table 5: Number of Material Weaknesses and Significant Deficiencies Reported in Single Audit Reports on Internal Controls over Compliance with Federal Awards for the Federated States of Micronesia (FSM) National Government and FSM States, Fiscal Years 2006 through 2014**

<b>Fiscal Year</b>	<b>State</b>	<b>Material weaknesses</b>	<b>Significant deficiencies</b>	<b>Total</b>
2006	FSM national government <sup>a</sup>	1	16	17
	Chuuk	14	0	14
	Pohnpei	0	6	6
	Kosrae	8	0	8
	Yap	0	7	7
	<b>Total</b>	<b>23</b>	<b>29</b>	<b>52</b>
2007	FSM national government <sup>a</sup>	0	14	14
	Chuuk	5	0	5
	Pohnpei	0	4	4
	Kosrae	0	8	8
	Yap	6	5	11
	<b>Total</b>	<b>11</b>	<b>31</b>	<b>42</b>
2008	FSM national government <sup>a</sup>	7	7	14
	Chuuk	1	0	1
	Pohnpei	0	2	2
	Kosrae	0	2	2
	Yap	10	0	10
	<b>Total</b>	<b>18</b>	<b>11</b>	<b>29</b>
2009	FSM national government <sup>a</sup>	10	10	20
	Chuuk	2	0	2
	Pohnpei	0	1	1
	Kosrae	0	0	0
	Yap	2	0	2
	<b>Total</b>	<b>14</b>	<b>11</b>	<b>25</b>
2010	FSM national government <sup>a</sup>	11	1	12
	Chuuk	1	0	1
	Pohnpei	0	1	1
	Kosrae	0	0	0
	Yap	1	3	4
	<b>Total</b>	<b>13</b>	<b>5</b>	<b>18</b>
2011	FSM national government <sup>a</sup>	4	8	12
	Chuuk	0	1	1
	Pohnpei	0	1	1
	Kosrae	0	0	0
	Yap	1	2	3
	<b>Total</b>	<b>5</b>	<b>12</b>	<b>17</b>
2012	FSM national government <sup>a</sup>	9	0	9
	Chuuk	0	1	1
	Pohnpei	0	1	1
	Kosrae	0	1	1
	Yap	0	2	2
	<b>Total</b>	<b>9</b>	<b>5</b>	<b>14</b>
2013	FSM national government <sup>a</sup>	7	2	9
	Chuuk	1	3	4
	Pohnpei	1	3	4
	Kosrae	0	0	0
	Yap	3	0	3
	<b>Total</b>	<b>12</b>	<b>8</b>	<b>20</b>
2014	FSM national government <sup>a</sup>	7	5	12
	Chuuk	1	2	3
	Pohnpei	3	1	4

Fiscal Year	State	Material weaknesses	Significant deficiencies	Total
	Kosrae	0	0	0
	Yap	5	0	5
	<b>Total</b>	<b>16</b>	<b>8</b>	<b>24</b>

Source: GAO analysis of FSM single audit reports. | GAO-16-760SP

<sup>a</sup>Data do not include findings of the component units of the FSM national government, such as the College of Micronesia.

As shown in table 6, as a group, the FSM national government and all of the FSM states submitted their required single audit reports on time for 7 of 9 years from 2006 through 2014. Of the 45 single audit reports submitted, 3 were submitted after the submission requirements.

**Table 6: Number of Months Single Audits from the Federated States of Micronesia (FSM) Were Received after the Required Submission Date, Fiscal Years 2006 through 2014**

Fiscal year	FSM <sup>a</sup>	Chuuk	Pohnpei	Kosrae	Yap
2006	2	2	0	0	0
2007	0	0	0	0	0
2008	0	0	0	0	0
2009	0	0	0	0	0
2010	0	0	0	0	0
2011	0	0	0	0	0
2012	0	0	0	0	0
2013	0	0	0	0	0
2014	1	0	0	0	0

Sources: GAO analysis of OMB Circular A-133, auditors' reports, and Federal Audit Clearinghouse (FAC) submission dates. | GAO-16-760SP

Notes: The deadline is 9 months after the close of the entity's fiscal year. To determine whether and how long after the deadline reports were submitted, we compared the deadline for each report with its most recent submission date for the required single audit form in the FAC database. Calculations were based on the submission date. The numbers of months were computed without regard to extensions granted to the insular area governments.

<sup>a</sup>The FSM national government's single audit cannot be completed until the states' single audits have been completed. Thus, if any state is late, the FSM national government's audit will also be late.

## The Republic of the Marshall Islands (RMI)

The RMI received unmodified opinions on their financial statements and report on the schedule of expenditures for federal awards. However, financial accountability at the RMI remains a concern due to several factors, including reported material internal control weaknesses in the areas of financial reporting and compliance with federal awards and the inability to meet single audit package filing requirements. As shown in table 7, from fiscal year 2006 through 2014, the RMI received unqualified or unmodified opinions, given when the auditor is reasonably assured that financial statements are free of material misstatements.<sup>21</sup>

**Table 7: Financial Statement Audit Opinions for the Republic of the Marshall Islands (RMI), Fiscal Years 2006 through 2014**

Fiscal Year	RMI
2006	Unqualified
2007	Unqualified
2008	Unqualified
2009	Unqualified
2010	Unqualified

<sup>21</sup>An auditee can receive an unmodified opinion even though a number of material weaknesses and significant deficiencies are identified.

<b>FiscalYear</b>	<b>RMI</b>
2011	Unqualified
2012	Unqualified
2013	Unmodified
2014	Unmodified

Source: GAO analysis of RMI single audit reports. | GAO-16-760S

Table 8 provides the opinions rendered by the RMI auditor on the Report on Schedule of Federal Awards from 2006 to 2014.

**Table 8: Opinions Rendered on the Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 for the Republic of the Marshall Islands (RMI), Fiscal Years 2006 through 2014**

<b>Fiscal Year</b>	<b>RMI</b>
2006	Unqualified
2007	Unqualified
2008	Unqualified
2009	Unqualified
2010	Unqualified
2011	Unqualified
2012	Unqualified
2013	Unmodified
2014	Unmodified

Source: GAO analysis of RMI single audit reports. | GAO-16-760SP

Table 9 shows the number of material weaknesses and significant deficiencies in internal controls over financial reporting for fiscal years 2006 through 2014. Although the RMI received unmodified or unqualified opinions on the schedule of expenditures of federal awards, the auditors identified material weaknesses and significant deficiencies. These included matters related to the design or operation of internal controls that could adversely affect the entity's ability to produce a financial statement that fairly represents the entity's financial condition and changes in its financial position. For example, one material weakness was the lack of general ledger account reconciliations, which could result in potential material misstatements of account balances, increased risk of undetected errors, and fraud and inaccurate financial reporting.

**Table 9: Number of Material Weaknesses and Significant Deficiencies on Internal Controls over Financial Reporting in the Republic of the Marshall Islands (RMI) Single Audit Reports, Fiscal Years 2006 through 2014**

<b>Fiscal Year</b>	<b>Material weaknesses</b>	<b>Significant deficiencies</b>	<b>Total</b>
2006	1	0	<b>1</b>
2007	3	0	<b>3</b>
2008	2	0	<b>2</b>
2009	5	0	<b>5</b>
2010	8	0	<b>8</b>
2011	11	0	<b>11</b>
2012	6	0	<b>6</b>
2013	10	0	<b>10</b>
2014	8	0	<b>8</b>

Source: GAO analysis of RMI single audit reports. | GAO-16-760SP

Note: Data do not include findings of the component units of the RMI government, such as the College of the Marshall Islands.

Table 10 shows the audit opinions rendered on the RMI's compliance with requirements (e.g., adequate maintenance procedures must be developed to keep the property in good condition) for each major federal program for fiscal years 2006 through 2014.

**Table 10: Opinions Rendered on Compliance with Requirements for Major Federal Programs for the Republic of the Marshall Islands (RMI), Fiscal Years 2006 through 2014**

Fiscal Year	RMI
2006	Qualified
2007	Qualified
2008	Qualified
2009	Qualified
2010	Qualified
2011	Qualified
2012	Qualified
2013	Qualified
2014	Qualified

Source: GAO analysis of single audit reports. | GAO-16-760SP

Table 11 provides additional information on the number of material weakness and significant deficiencies that led to qualified opinions regarding the internal controls over compliance with requirements for major federal programs.<sup>22</sup> These weaknesses could adversely affect the RMI's ability to operate a major federal program within the applicable requirements of laws, regulations, contracts, and grants. For example, in fiscal year 2014, the RMI's auditors cited noncompliance and internal control weaknesses in several areas, including

- procurement (e.g., RMI supporting documentation was inadequate to evidence the procurement process);
- cash management (e.g., inadequate support to determine if transfer of funds to the RMI was appropriate); and
- equipment and real property management (e.g., no inventory of fixed assets had been performed to satisfy compliance with applicable equipment management requirements).

**Table 11: Number of Material Weaknesses and Significant Deficiencies Reported in the Republic of the Marshall Islands (RMI) Relating to the Internal Controls over Compliance with Requirements for Major Federal Programs for Fiscal Years 2006 through 2014**

Fiscal Year	Material weaknesses	Significant deficiencies	Total
2006	4	6	10
2007	3	5	8
2008	3	4	7
2009	8	3	11
2010	7	0	7
2011	8	0	8
2012	7	0	7
2013	7	0	7
2014	4	2	6

Source: GAO analysis of RMI single audit reports. | GAO-16-760SP

Note: Data do not include findings of the component units of the RMI government, such as the College of the Marshall Islands.

<sup>22</sup>For determining an opinion on compliance with requirements for major programs, the opinion is based on the extent of the material weaknesses and significant deficiencies observed by the auditors during the course of the audit.

As required, the RMI has developed corrective action plans to address the fiscal year 2014 single audit findings regarding its compliance with internal controls and federal grant requirements. For example, according to the fiscal year 2014 report, the RMI plans to strengthen internal controls over procurement and address its long-standing weaknesses related to adequately accounting for its equipment and real property. The fiscal year 2014 single audit reported that the RMI did not qualify as a low-risk auditee.

As shown in table 12, during fiscal years 2006 through 2014, the RMI did not consistently submit its single audit report by the required deadlines. For example, the required single audit reports for fiscal years 2006 through 2010 were submitted on time; however, the last four single audit reports, for fiscal years 2011 through 2014, were submitted after the deadline.

**Table 12: Number of Months Single Audits of the Republic of the Marshall Islands (RMI), Fiscal Years 2006 through 2014, Were Submitted after the Specified Timeframe**

Fiscal year	RMI
2006	0
2007	0
2008	0
2009	0
2010	0
2011	8
2012	1
2013	4
2014	8

Sources: GAO analysis of OMB Circular A-133, auditor's reports, and Federal Audit Clearinghouse (FAC) submission dates. | GAO-16-760SP

Note: All years cited are fiscal years (Oct. 1 through Sept. 30). The specified timeframe for submission of the single audit package is 9 months after the close of the entity's fiscal year. To determine whether and how long after the deadline reports were submitted, we compared the deadline for each report with its most recent submission date for the required single audit form in the FAC database. Calculations were based on the submission date. The numbers of months were computed without regard to extensions granted to the insular area governments.

(100852)