



Highlights of [GAO-04-7](#), a report to congressional requesters

# COMPACT OF FREE ASSOCIATION

## Single Audits Demonstrate Accountability Problems over Compact Funds

### Why GAO Did This Study

In 1986, the United States entered into a Compact of Free Association (Compact) that provided about \$2.1 billion in U.S. assistance from 1987 through 2003 to the Pacific Island nations of the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI). GAO has issued a number of reports raising concerns about the effectiveness of this assistance. GAO was asked to review possible FSM and RMI misuse of Compact funds. We reviewed single audits for 1996 through 2000 and this report summarizes the audit results.

### What GAO Recommends

GAO recommends that the Secretary of the Interior delegate responsibility to and hold the Office of Insular Affairs accountable for monitoring and reporting on FSM and RMI actions to address Compact-related single audit findings and initiating appropriate actions when the FSM or the RMI do not implement appropriate and adequate actions to correct Compact-related single audit findings in a timely manner.

In commenting on this report, the Office of Insular Affairs of the Department of the Interior, FSM, and RMI agreed with our findings or conclusions and recommendations. They also cited the amended Compacts as mechanisms that should result in improved financial management over Compact assistance.

[www.gao.gov/cgi-bin/getrpt?GAO-04-7](http://www.gao.gov/cgi-bin/getrpt?GAO-04-7).

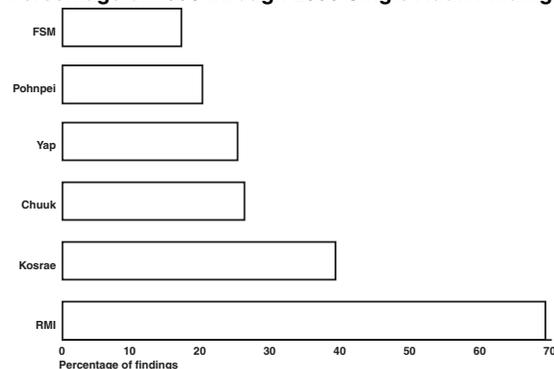
To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-6906 or [williamsm1@gao.gov](mailto:williamsm1@gao.gov) or Susan Westin at (202) 512-4128 or [westins@gao.gov](mailto:westins@gao.gov).

### What GAO Found

GAO's review of 30 single audit reports for the FSM, 4 FSM states, and the RMI for the years 1996 through 2000 identified pervasive and persistent noncompliance with Compact requirements and financial statement-related audit findings. These single audit reports identified 458 audit findings relevant to the Compact. Significant numbers of these audit findings occurred during each year of the 5-year period and at each of the auditees. In addition, successive single audits identified recurring audit findings over the 5-year period despite corrective action plans prepared by the auditees. While none of the audit findings specifically discussed misuse of Compact funds, they did describe noncompliance with Compact requirements and financial management problems in areas that GAO considers highly susceptible to misuse, such as poor control over cash and equipment. When considered in conjunction with the qualified opinions or disclaimers of opinion on the financial statements in all 30 reports and for 60 percent of the Schedules of Expenditure of Federal Awards required by the Single Audit Act, the audit findings reveal one thing: overall poor accountability of Compact funds.

In responding to GAO's previous reviews of the original Compact, Interior officials expressed concerns about the U.S. government's limited ability to enforce accountability over Compact funds due to certain provisions of the Compact and the related fiscal procedures agreement (FPA). Recently, an Interior official noted that departmental officials have been frustrated with the lack of tools to administer or track federal assistance in a manner that could reasonably ensure that such assistance is having its intended effect. GAO found that the amended Compacts and related FPAs, which are scheduled to become effective upon legislative approval in the three countries, include many strengthened reporting and monitoring measures that could improve accountability, if diligently implemented. For example, funds could be withheld for noncompliance with Compact terms and conditions. In addition, joint economic committees and an Interior oversight team will focus on monitoring and overseeing Compact funds.

Percentage of 1996 through 2000 Single Audit Findings That Recurred 3 or More Years



Source: GAO analysis of single audit reports.