



September 2023

# **FREELY ASSOCIATED STATES**

## **Agencies Should Enhance Procedures to Address Millions of Dollars in Questionable Spending**

## Why GAO Did This Study

FSM, RMI, and Palau annually receive millions of dollars of U.S. assistance. U.S. agencies have provided some of this assistance through grant awards under the U.S. compacts of free association and other agreements with the three countries. Because of the amount of their grant spending, each country must obtain a single audit of its use of these funds each year and submit a report of the audit findings, including any questioned costs.

Federal regulation requires the awarding agency to issue a management decision for each audit finding. Federal regulation also requires the agency to follow up on audit findings to ensure timely corrective action. If agencies do not issue decisions and conduct follow-up within 2 years, the country may potentially avoid repayment of any ineligible costs. More than 95 percent of questioned costs identified in the single audit reports GAO reviewed were related to grants awarded by HHS and Interior.

This report examines the extent to which HHS and Interior have met federal requirements for (1) issuing management decisions and (2) following up on questioned costs. GAO reviewed the single audit reporting packages the countries submitted for FYs 2015 through 2019—the most current reports available—and HHS and Interior documentation. GAO also interviewed HHS and Interior officials.

## What GAO Recommends

GAO is making six recommendations—two to HHS and four to Interior—to strengthen processes for issuing management decisions and following up on questioned costs. The agencies concurred with the recommendations.

View [GAO-23-106160](#). For more information, contact Latesha Love-Grayer at (202) 512-4409 or [lovegrayerl@gao.gov](mailto:lovegrayerl@gao.gov).

# FREELY ASSOCIATED STATES

## Agencies Should Enhance Procedures to Address Millions of Dollars in Questionable Spending

### What GAO Found

The Departments of Health and Human Services (HHS) and Interior did not consistently issue management decisions for audit findings related to grants to the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI), and Republic of Palau within the time frame specified by federal regulation. Each country must annually obtain an audit—known as a single audit—of its use of grant funds and submit a report of the findings. Within 6 months, the agencies must issue a management decision for each finding—including expenditures the auditor questioned, known as questioned costs—clearly stating any expected corrective action. For single audits in fiscal years (FY) 2015 through 2019, HHS failed to issue seven of 11 decisions and Interior failed to issue seven of 12 decisions within the 6-month time frame. Both agencies attributed their failure to issue timely decisions to staffing gaps. Taking appropriate action, such as devoting needed staffing resources, to ensure they issue management decisions in the required time frame would help the agencies reduce the risk that the countries will fail to implement timely corrective actions.

**Table 1: Timeliness of HHS and Interior Management Decisions for Questioned Costs Identified in FSM, RMI, and Palau Single Audits, Fiscal Years 2015–2019**

Agency	Management decisions required for findings with questioned costs	Management decisions not issued in required timeframe	Total questioned costs associated with delayed management decisions
HHS	11	7	\$1,430,918
Interior	12	7	2,044,207

Legend: HHS = Department of Health and Human Services, FSM = Federated States of Micronesia, RMI = Republic of the Marshall Islands, Palau = Republic of Palau.

Source: GAO analysis of information from HHS and Department of the Interior. | [GAO-23-106160](#)

GAO's review of FY 2019 single audit reports for FSM, RMI, and Palau found that HHS had not resolved, and Interior could not show it resolved, several long-standing questioned costs as federal regulation requires.

- At the time of our review, HHS had not yet resolved several questioned costs, totaling almost \$600,000, that were first reported in FY 2010 for RMI. GAO found HHS did not initiate required follow-up to address some of these questioned costs until many years after they were first identified. HHS's procedures for resolving questioned costs do not specify when follow-up should begin or how frequently it should occur. Revising its guidance to specify timing for audit follow-up would help HHS reduce the risk of questioned costs remaining unresolved.
- Interior was unable to provide information showing the resolution of three questioned costs totaling more than \$650,000 that were first reported for FSM and RMI in FYs 2008 through 2014. Though Interior told GAO it had resolved these findings, evidence it provided did not substantiate its claim. Interior has not fully documented procedures for resolving audit findings. Documenting procedures would clarify Interior staff's responsibilities related to resolving audit findings, including issuing management decisions for FSM, RMI, and Palau.

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## **Abbreviations**

FSM Federated States of Micronesia  
HHS Department of Health and Human Services  
OMB Office of Management and Budget  
RMI Republic of the Marshall Islands

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September 27, 2023

The Honorable Joe Manchin III  
Chairman  
Committee on Energy and Natural Resources  
United States Senate

The Honorable Lisa Murkowski  
United States Senate

The United States has maintained compacts with the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) since 1986 and with the Republic of Palau since 1994. These compacts have provided the U.S. government with exclusive military use rights in the three countries and enabled it to maintain critical access in the Asia-Pacific region. Under the compacts and related agreements, as well as other programs specified in current law, the United States has annually provided millions of dollars of economic assistance to the countries through grant awards and other means.<sup>1</sup>

As federal award recipients, each of the three countries is required to obtain a single audit covering, among other things, the country's financial statements and compliance with federal laws and regulations.<sup>2</sup> In addition, federal regulation requires each country to submit a report of the audit results as well as a corrective action plan to address each audit finding. Such findings may include expenditures the auditor questioned—

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<sup>1</sup>Compact grants under the current agreements will end after 2023 for FSM and RMI and after 2024 for Palau. According to the Department of State, negotiations for some of the agreements related to the compacts are ongoing; other new agreements have been concluded and provided to Congress. Assistance provided pursuant to current agreements related to the compacts will end after fiscal year 2023 for FSM and RMI and after fiscal year 2024 for Palau. For more information, see GAO, *Compacts of Free Association: Implications of Planned Ending of Some U.S. Economic Assistance*, [GAO-22-104436](#) (Washington, D.C.: Feb. 14, 2022).

<sup>2</sup>A single audit is an organization-wide audit of a nonfederal entity's financial statement and federal awards that is intended to provide assurance to the federal government that the entity has adequate internal controls and is generally in compliance with program requirements. Currently, all nonfederal entities that expend \$750,000 or more of federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act (Pub. L. No. 98-502, 98 Stat. 2327, as amended and codified at 31 U.S.C. § 7501 et seq.). See 2 C.F.R. § 200.501(b). As we reported in February 2022, FSM, RMI, and Palau expended about \$83 million, \$56 million, and \$32 million, respectively, of funding provided through U.S. grant awards in 2019. See [GAO-22-104436](#).

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known as questioned costs—for reasons such as noncompliance with federal regulation or lack of required documentation.<sup>3</sup>

Federal regulation also requires awarding agencies to take certain steps with regard to single audit findings. These steps include issuing, within 6 months after the Federal Audit Clearinghouse accepts an audit report, a management decision for each audit finding, stating whether the finding is sustained and what corrective action is expected.<sup>4</sup> Agencies must also conduct follow-up to ensure the award recipient takes corrective action to resolve audit findings such as questioned costs, which may include payments the awarding agency determines to be improper.<sup>5</sup> For fiscal year 2022, federal agencies reported an estimated total of \$247 billion in improper payments.<sup>6</sup> As we have previously reported, reducing improper payments is critical to safeguarding federal funds.<sup>7</sup>

In a February 2022 report, we reviewed U.S. assistance to FSM, RMI, and Palau, including the implications of the ending of certain U.S. assistance on the countries' ability to support themselves over time.<sup>8</sup> In this follow-on report, we examine the extent to which two federal agencies

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<sup>3</sup>A questioned cost is an expenditure that an auditor questions because of an audit finding (1) that resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; (2) where the expenditure, at the time of the audit, is not supported by adequate documentation; or (3) where the expenditure appears unreasonable and does not reflect the actions a prudent person would take in the circumstances. 2 C.F.R. § 200.1.

<sup>4</sup>2 C.F.R. § 200.521(a). Corrective action is action taken by the auditee that (1) corrects identified deficiencies, (2) produces recommended improvements, or (3) demonstrates that audit findings are invalid or do not warrant auditee action. 2 C.F.R. § 200.1.

<sup>5</sup>A questioned cost is not an improper payment until reviewed and confirmed to be improper. See 2 C.F.R. § 200.1. An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. An improper payment includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. 31 U.S.C. § 3351(4). Executive agency estimates of improper payments also treat as improper any payments whose propriety cannot be determined due to lacking or insufficient documentation. 31 U.S.C. § 3352(c)(2).

<sup>6</sup>Hereafter in this report, all years cited are fiscal years unless noted otherwise.

<sup>7</sup>GAO, *Improper Payments: Fiscal Year 2022 Estimates and Opportunities for Improvement*, [GAO-23-106285](#) (Washington, D.C.: Mar. 29, 2023).

<sup>8</sup>[GAO-22-104436](#).

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that have awarded grants to the countries—the Department of Health and Human Services (HHS) and the Department of the Interior—have met federal requirements for (1) issuing management decision letters within 6 months after the Federal Audit Clearinghouse accepted audit reports for FSM, RMI, and Palau that identified questioned costs and (2) conducting follow-up of questioned costs to ensure their resolution.

We reviewed the 35 single audit reports that FSM, RMI, and Palau submitted to the clearinghouse for 2015 through 2019.<sup>9</sup> Because of delays in the submission of Palau’s report for 2020, the reports for 2015 through 2019 were the most recent available for all three countries when we requested them.<sup>10</sup> We focused our review of the audits on findings related to grants from HHS and Interior—which oversees U.S. assistance to FSM, RMI, and Palau—because more than 95 percent of questioned costs identified in the audit reports we reviewed were related to grants that these agencies provided to the three countries.

To determine whether HHS and Interior met federal regulations for issuing management decisions, we requested and obtained copies of the agencies’ management decision letters related to questioned costs identified in FSM’s, RMI’s, and Palau’s single audit reports for 2015 through 2019. We compared the dates of these letters with the dates of those reports’ submission and, when applicable, followed up with the agencies to determine why they had not issued management decisions within 6 months as required. We also interviewed HHS and Interior officials.

To determine whether HHS and Interior followed up on the countries’ implementation of planned corrective actions to resolve questioned costs, we reviewed all 2019 single audit reports with findings of questioned costs exceeding \$75,000 per finding per program that were initially

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<sup>9</sup>The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record where nonfederal entities are required to transmit the information required by audit provisions of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements set forth at 2 C.F.R. Part 200. 2 CFR §200.1.

<sup>10</sup>Palau submitted its 2020 single audit reporting package to the Federal Audit Clearinghouse in April 2023.

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identified by single audits before 2015.<sup>11</sup> We requested that the agencies provide documentation of their follow-up actions to resolve these questioned costs. We compared the agencies' actions to follow up on and resolve questioned costs to federal grant requirements and to standards for internal control in the federal government. We also interviewed HHS and Interior officials.

We conducted this performance audit from July 2022 to September 2023 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.

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## Background

Each federal award recipient that is required to have a single audit must submit an annual single audit reporting package.<sup>12</sup> The package includes auditor's reports, the recipient's financial statements and schedule of expenditures of federal awards, a summary of prior audit findings, a corrective action plan to resolve each finding, and the expected completion date for each corrective action.

Within 6 months after acceptance of the single audit reporting package by the Federal Audit Clearinghouse, the federal awarding agency must communicate a written management decision to the award recipient. The management decision must clearly state, among other things, whether the audit finding is sustained and what corrective action is expected. After issuing the decision, the agency must conduct follow-up that includes monitoring the recipient's implementation of appropriate and timely corrective action. If the agency has not issued the management decision

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<sup>11</sup>Our decision to review 2019 single audit reports with findings of questioned costs first identified before 2015 was informed in part by the timeframe required to resolve questioned costs. Federal regulation requires awarding agencies to follow up with award recipients immediately but no later than within 2 years of the submission of the single audit reporting package to the Federal Audit Clearinghouse. Subsequent to this initial follow-up, agencies and award recipients must take additional steps, including providing requested documentation or other information needed to resolve audit findings and questioned costs. Therefore, although federal regulation requires award recipients to begin corrective action as rapidly as possible to address audit findings, questioned costs may remain unresolved for several years following the submission of the single audit report.

<sup>12</sup>Generally, the award recipients are to submit the single audit reporting packages within the shorter of two time frames—either 30 days after receiving the single audit report from the auditor or 9 months after the end of the fiscal year that was audited. See 31 U.S.C. § 7502(h).



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and is not conducting follow-up 2 years after the award recipient submitted the single audit report to the Federal Audit Clearinghouse, the recipient may assert that follow-up of audit findings and questioned costs is no longer warranted.<sup>13</sup>

In 2017, we reviewed selected agencies' oversight of federal awards, including their compliance with Office of Management and Budget (OMB) guidance.<sup>14</sup> We found, among other things, that agencies, including HHS, did not have policies and procedures to ensure timely issuance of management decisions in accordance with OMB guidance. In 2019, HHS established internal guidance that included timeframes established by OMB's guidance for issuing management decisions.

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## HHS and Interior Have Not Consistently Issued Management Decisions within the Required Timeframe

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### HHS Issued More Than Half of Its Management Decisions Related to Questioned Costs after the Regulatory Deadline

Our review found that HHS failed to issue seven of its 11 management decisions for questioned costs identified by the FSM, RMI, and Palau single audits for 2015 through 2019 within the 6-month timeframe specified by federal regulation. These single audits identified more than \$1.7 million in questioned costs related to HHS grants for the three countries in 2015 through 2019. As table 1 shows, the questioned costs

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<sup>13</sup>See 2 C.F.R. § 200.511(b)(3). According to the regulation, "When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred: (i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal Audit Clearinghouse; (ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and (iii) A management decision was not issued."

<sup>14</sup>Our review examined oversight conducted by five agencies—HHS and the Departments of Agriculture, Education, Housing and Urban Development, and Transportation; our review did not include Interior. See GAO, *Single Audits: Improvements Needed in Selected Agencies' Oversight of Federal Awards*, [GAO-17-159](#) (Washington, D.C.: Feb. 16, 2017).

for which HHS issued management decisions after the required time frame amounted to more than \$1.4 million.

**Table 1: Timeliness of Required HHS Management Decisions for Questioned Costs Identified in FSM, RMI, and Palau Single Audit Reports for Fiscal Years 2015–2019**

Single audit year	Management decisions required for findings with questioned costs	Management decisions not issued within required 6-month timeframe		Total questioned costs associated with delayed management decisions
		Number	Percentage	
2015	3	1	33	\$212,358
2016	2	2	100	119,463
2017	1	1	100	18,515
2018	1	0	0	0
2019	4	3	75	1,080,582
<b>Total</b>	<b>11</b>	<b>7</b>	<b>64</b>	<b>\$1,430,918</b>

Legend: FSM = Federated States of Micronesia, RMI = Republic of the Marshall Islands, Palau = Republic of Palau.

Source: GAO analysis of Department of Health and Human Services (HHS) information. | GAO-23-106160

HHS issued four of the required decisions more than 3 months after the 6-month deadline. For example, in March 2023, during our review, HHS issued a management decision for a 2019 single audit finding more than 21 months after the 6-month deadline. The audit had identified over \$1 million in questioned costs as well as several other concerns. These other concerns included lack of compliance with federal requirements, such as requirements for competitive procurement of goods and services, and lack of needed documentation—for example, an absence of reports confirming receipt of supplies, lack of reports for travel costs, and unapproved employee timesheets.

According to HHS, it took steps to improve the timeliness of its issuance of management decisions, including providing guidance and training to responsible staff and conducting internal reviews, after we issued our 2017 report on selected agencies’ oversight of federal awards.<sup>15</sup> Nonetheless, HHS documentation of internal reviews shows that, agencywide, at least one-third of management decisions HHS examined in its internal reviews were issued after the 6-month deadline in calendar years 2020, 2021, and 2022. HHS attributed the continued delays to staffing gaps.

<sup>15</sup>[GAO-17-159](#).

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Effective management of an entity's workforce—its human capital—is essential to achieving results and is also an important part of internal control. Taking appropriate action, such as devoting adequate staffing resources to ensure it can issue management decisions within the required time frame, would strengthen HHS's compliance with federal regulation as well as its oversight of grants to FSM, RMI, and Palau. In addition, timely issuance of management decisions would help reduce the risk that award recipients will misunderstand HHS's position on the audit findings and fail to implement appropriate corrective actions.

Timely issuance of management decisions would also prevent recipients from potentially asserting, after delays of 2 or more years, that HHS's follow-up of the questioned costs, including any improper payments, is no longer warranted. For example, Palau's 2015 and 2017 single audit reports indicated that Palau made such assertions about questioned costs totaling more than \$655,000 when, 2 years after Palau submitted its single audit reports for 2012 and 2014, HHS had not issued a management decision and was not conducting follow-up.<sup>16</sup>

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### Interior Issued More Than Half of Its Management Decisions Related to Questioned Costs after the Regulatory Deadline

Our review found that Interior failed to issue seven of its 12 management decisions for questioned costs identified by the FSM, RMI, and Palau single audits for 2015 through 2019 within the 6-month time frame specified by federal regulation. These single audits identified more than \$4 million in questioned costs related to Interior grants for the three countries during that period. As table 2 shows, the questioned costs for which Interior issued management decisions after the required time frame amounted to more than \$2 million.

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<sup>16</sup>In several other instances not related to questioned costs, the FSM national government asserted that follow-up was no longer warranted for findings related to noncompliance with procurement regulations, among other issues.

**Table 2: Timeliness of Required Interior Management Decisions for Questioned Costs Identified in FSM, RMI, and Palau Single Audit Reports for Fiscal Years 2015–2019**

Single audit year	Management decisions required for findings with questioned costs	Management decisions not issued within required 6-month timeframe		Questioned costs associated with delayed management decisions
		Number	Percentage	
2015	4	2 <sup>a</sup>	50	\$388,216
2016	1	0	0	0
2017	2	1	50	76,540
2018	2	1	50	375,880
2019	3	3	100	1,203,571
<b>Total</b>	<b>12</b>	<b>7</b>	<b>58</b>	<b>\$2,044,207</b>

Source: GAO analysis of Department of the Interior information. | GAO-23-106160

<sup>a</sup>Interior staff were unable to provide documentation of the decisions' issuance. They noted that the department's record retention policy does not require retaining such documents beyond 3 years.

Interior issued two of these decisions at least 3 years after the management decision letters were due. Specifically, in March 2023, after we began inquiring about its follow-up, Interior issued three decisions for questioned costs identified in the 2017, 2018, and 2019 audits for the FSM state of Yap as well as a fourth decision for questioned costs identified in the 2019 audit for RMI. Interior staff attributed the delayed issuance of management decisions to staffing gaps exacerbated by the COVID-19 pandemic.

As we found for HHS, taking appropriate action, such as dedicating the staffing resources needed to ensure that it can issue management decision letters within the required time frame, would strengthen Interior's compliance with federal regulation and its oversight of grants to FSM, RMI, and Palau. In addition, timely issuance of management decisions would help reduce the risk that award recipients will misunderstand Interior's position on the audit findings and fail to implement appropriate corrective actions. It would also prevent recipients from potentially asserting, after delays of 2 or more years, that Interior's follow-up of the questioned costs, including any improper payments, is no longer warranted.

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## HHS Has Not Resolved, and Interior Could Not Show It Resolved, Long-Standing Questioned Costs

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### HHS Has Not Resolved Findings with Questioned Costs First Reported in 2010

Our review of FSM's, RMI's, and Palau's single audit reports for 2019 found that, at the time of our review, HHS had not yet resolved several findings involving almost \$600,000 of questioned costs that were first identified in 2010 but reported as unresolved in 2019.<sup>17</sup> We found that HHS did not initiate follow-up to address these findings until several years—more than 10 years in one case—after the 2010 RMI single audit report first identified them.<sup>18</sup>

The 2019 RMI single audit report identified questioned costs totaling \$94,554, related to the Immunization Cooperative Agreements program, that were first reported in 2010. HHS documentation shows it requested that the RMI government return the funding in 2018 if the government could not provide adequate documentation. However, as of July 2023, these questioned costs remained unresolved.<sup>19</sup>

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<sup>17</sup>RMI's 2019 single audit report also included unresolved questioned costs lower than \$75,000—our review's threshold—that were first reported in 2008 and 2010.

<sup>18</sup>According to HHS's procedure, when an audit report indicates that findings from a previous audit remain uncorrected, the analyst shall initiate appropriate actions to determine why the findings remain open and when corrective action will be completed. Department of Health and Human Services, *Single Audit Resolution Standard Operating Procedure*, v. 1.2 (Sept. 30, 2019).

<sup>19</sup>HHS submitted follow-up notices to the RMI government on March 2, 2020, and May 1, 2020, stating that the account was delinquent and considered due on July 8, 2018. HHS informed RMI that it intended to refer the debt to other federal agencies for the purposes of administrative offset under the Debt Collection Improvement Act of 1996. A federal statute requires agencies to notify the Department of the Treasury of debts delinquent more than 120 days for purposes of administrative offset. 31 U.S.C. § 3716(c)(6). In July 2023, HHS informed us that RMI had not made any payments for this debt and that HHS planned to refer it to debt collection agencies by the end of 2023.

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In addition, the 2019 RMI single audit reported identified questioned costs totaling \$496,100 that related to three programs and were first reported in 2010. The following describes the status of these questioned costs:

- Questioned costs totaling \$170,600 for Public Health Emergency Preparedness that were first identified in the 2010 RMI single audit remained unresolved as of July 2023.<sup>20</sup>
- Questioned costs totaling \$170,000 for the Public Health and Social Services Emergency Fund that were first identified in the 2010 RMI single audit remained unresolved as of April 2023. HHS sent RMI an initial audit resolution letter in April 2021, requesting additional documentation regarding questioned costs. The officials told us in April 2023 that HHS sent subsequent audit resolution letters in June 2021 and, most recently, in January 2022 but that RMI had not yet provided an adequate response.
- Questioned costs totaling \$155,500 for the National Bioterrorism Hospital Preparedness program that were first identified in the 2010 RMI single audit remained unresolved as of March 2023. HHS sent its initial audit resolution letter in March 2023, during our review, requesting documentation from RMI.

HHS has standard operating procedures covering, among other things, follow-up to ensure that grant recipients take appropriate and timely corrective actions, such as resolving questioned costs. However, these procedures do not specify when follow-up should begin or how frequently it should occur (e.g., every 12 months).<sup>21</sup>

Standards for internal control in the federal government call for management to design control activities to, among other things, achieve objectives; they also call for management to remediate internal control

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<sup>20</sup>The follow-up notices that HHS submitted to the RMI government on March 2 and May 1, 2020, stated that it intended to refer the debt to other federal agencies for the purposes of administrative offset under the Debt Collection Improvement Act of 1996.

<sup>21</sup>HHS's Single Audit Resolution Standard Operating Procedure states, "The evaluation of the recipients' planned corrective actions, the communication of Federal agency concerns to the recipient and auditor, the initiation of any necessary safeguards, and follow-up for timely and appropriate corrective actions will help prevent improper payments and ensure compliance with Federal regulations and guidelines." Further, the procedure states that the analyst should continue to follow up until satisfied that the recipient has fully and effectively corrected the deficiencies. In addition, the procedure states that the analyst is responsible for establishing safeguards to protect the U.S. government's interest if the recipient is unwilling or unable to adequately correct or agree to correct deficiencies within a reasonable period of time.

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deficiencies on a timely basis.<sup>22</sup> More-specific guidance regarding when follow-up should begin and how frequently it should occur would help HHS resolve outstanding questioned costs in a timelier manner, reducing the risk that debts to the federal government will remain uncollected for many years. An HHS official responsible for single audit resolution told us that adding expected timeframes for follow-up activities to HHS's policy would help the agency resolve questioned costs in a timelier manner.

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### Interior Could Not Show It Resolved Long-Standing Questioned Costs

Interior was unable to provide us with information showing the resolution of several long-standing questioned costs that it maintains were resolved but that FSM's and RMI's 2019 single audit reporting packages show were not. Our review of FSM's and RMI's 2019 summaries of prior audit findings, included in the reporting packages submitted to the Federal Audit Clearinghouse, found that they identified as unresolved more than \$650,000 of questioned costs that single audits had first identified 5 to 11 years earlier.

- The FSM's 2019 summary of prior audit findings identified as unresolved \$162,378 of questioned costs that were first identified in 2014.
- The RMI's 2019 summary of prior audit findings identified as unresolved \$208,243 of questioned costs that were first identified in 2009.
- The RMI's 2019 summary of prior audit findings also identified as unresolved \$294,900 of questioned costs that were first identified in 2008.

An Interior official with responsibility for single audits maintained that although the 2019 summaries of prior audit findings showed the questioned costs as unresolved, the costs had in fact been resolved. To support this statement, Interior provided budgetary information and other documents that did not conclusively show the questioned costs' resolution or when it occurred. The Interior official noted that federal regulation does not require maintaining records of such transactions beyond 3 years after resolution of the findings and questioned costs.

However, federal regulation requires the awarding agency to develop metrics, among other things, to track over time the effectiveness of its process for following up on audit findings and to track the effectiveness of

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<sup>22</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

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single audits in improving accountability.<sup>23</sup> Establishing a mechanism to track its follow-up activities over time would help Interior ensure that it complies with federal requirements and strengthen its oversight of FSM's, RMI's, and Palau's accountability for U.S. assistance.

Moreover, although Interior officials maintained that FSM's and RMI's 2019 summaries of prior audit findings contained inaccurate information, Interior did not notify the auditor, according to the responsible Interior official. As a result, this information also appeared in FSM's and RMI's 2020 and 2021 summaries of prior findings, possibly affecting their reliability for oversight purposes. Federal regulation requires the cognizant agency for an audit to advise the auditor of any deficiencies that require correction by the auditor.<sup>24</sup> Promptly informing the auditor of any deficiencies in future single audit reporting packages would help Interior ensure their reliability for use in overseeing FSM's, RMI's, and Palau's accountability for U.S. assistance.

Further, Interior has not documented procedures for resolving single audit findings involving FSM, RMI, and Palau.<sup>25</sup> Standards for internal control in the federal government call for management to design control activities to achieve objectives and respond to risks and also calls for management to document policies in written or electronic form.<sup>26</sup> Complete documentation of procedures for resolving FSM, RMI, and Palau single audit findings would clarify Interior's single audit responsibilities, such as issuing management decision letters, tracking follow-up activities over time, and advising the auditor of deficiencies in single audit reporting packages. It would also help ensure continuity in performing these functions if the responsible staff leave or are unavailable.

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## Conclusions

The United States provides millions of dollars in annual assistance to FSM, RMI, and Palau. To ensure that these countries spend grant funds in accordance with federal standards, the U.S. government requires them, like other awardees that expend \$750,000 or more of federal awards in a year, to obtain independent audits of their grant spending every year.

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<sup>23</sup>2 C.F.R. § 200.513(c)(3)(iv).

<sup>24</sup>2 C.F.R. § 200.513(a)(3)(v).

<sup>25</sup>Interior provided us with a position description that describes some of staff's responsibilities related to single audits and also provided an overview of its Office of Insular Affairs' financial assistance program. However, neither of these documents included procedures for resolving FSM, RMI, and Palau single audit findings.

<sup>26</sup>[GAO-14-704G](#).



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However, federal awarding agencies must also do their part to ensure accountability for U.S. funds, including issuing management decisions and monitoring award recipients' corrective actions.

However, we found that both HHS and Interior failed to issue timely management decisions. Both agencies attributed this failure to lack of staff capacity. Taking appropriate action, such as dedicating the needed staffing resources to ensure the timely issuance of management decisions will help strengthen the agencies' compliance with federal regulation and their oversight of grants to FSM, RMI, and Palau, including identifying and addressing any improper use of taxpayer dollars.

Moreover, although HHS has taken steps in recent years to follow up on unresolved questioned cost related to its awards, it has done so with varying frequency. While HHS has standard operating procedures governing such monitoring activities, the procedures do not specify expected time frames. More-specific guidance on how frequently monitoring of corrective actions should take place would help HHS resolve outstanding questioned costs in a timelier fashion and reduce the risk that costs will remain unresolved and debts to the federal government uncollected for many years.

Further, Interior lacked information showing the resolution of questioned costs identified as unresolved in 2019 single audit reports. Without such information, Interior cannot track the results of its efforts to resolve questioned costs and therefore is unable assess the effectiveness of its follow-up activities over time, as federal regulation requires. In addition, although Interior told us that the summary of prior audit findings in RMI's 2019 single audit reporting package inaccurately listed questioned costs as unresolved, Interior did not notify the auditor as federal regulation requires. Promptly informing the auditor of any deficiencies in future single audit reporting packages would help ensure the reports' reliability for oversight of FSM's, RMI's, and Palau's use of U.S. assistance. Finally, Interior lacks written procedures for fulfilling single audit-related responsibilities required by federal regulation, including reporting single audit deficiencies and resolving single audit findings. Documentation of such procedures would provide Interior greater clarity regarding these oversight responsibilities and help ensure continuity of operations in the event of staff turnover or unavailability.

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## Recommendations for Executive Action

We are making six recommendations—two to HHS and four to Interior.

The Secretary of Health and Human Services should take appropriate action, such as dedicating adequate staffing resources, to ensure that management decisions for questioned costs identified in single audits for FSM, RMI, and Palau are issued within the required timeframe. (Recommendation 1)

The Secretary of the Interior should take appropriate action, such as dedicating adequate staffing resources, to ensure that management decisions for questioned costs identified in single audits for FSM, RMI, and Palau are issued within the required timeframe. (Recommendation 2)

The Secretary of Health and Human Services should revise its guidance to specify when HHS monitoring of award recipients' corrective actions related to questioned costs should begin and how frequently it should occur. (Recommendation 3)

The Secretary of the Interior should establish a mechanism to track over time the results of efforts to resolve questioned costs identified in single audits for FSM, RMI, and Palau. (Recommendation 4)

The Secretary of the Interior should notify the auditor responsible for the RMI 2019 single audit about any inaccuracies in the RMI's single audit report, as federal regulation requires. (Recommendation 5)

The Secretary of the Interior should document its procedures for resolving single audit findings, including questioned costs, for FSM, RMI, and Palau. (Recommendation 6)

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## Agency Comments and Our Evaluation

We provided a draft of this report to HHS and Interior for their review. Both HHS and Interior agreed with our recommendations. Their comments are reproduced in appendixes I and II, respectively. Neither agency provided technical comments.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Secretary of Health and Human Services, the Secretary of the Interior, and other interested parties. In addition, the report will be available at no charge on the GAO website at <https://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (202) 512-4409 or [lovegrayer1@gao.gov](mailto:lovegrayer1@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Latesha Love-Grayer  
Director, International Affairs and Trade

# Appendix I: Comments from the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF THE SECRETARY

Assistant Secretary for Legislation  
Washington, DC 20201

September 1, 2023

Latesha Love-Grayer  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
441 G Street NW  
Washington, DC 20548

Dear Ms. Love-Grayer:

Attached are comments on the U.S. Government Accountability Office's (GAO) report entitled, **"Freely Associated States: Agencies Should Enhance Procedures to Address Millions of Dollars in Questionable Expenditures" (GAO-23-106160).**

The Department appreciates the opportunity to review this report prior to publication.

Sincerely,

*Melanie Anne Egorin*

Melanie Anne Egorin, PhD  
Assistant Secretary for Legislation

Attachment

**GENERAL COMMENTS FROM THE DEPARTMENT OF HEALTH & HUMAN SERVICES ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S DRAFT REPORT ENTITLED –FREELY ASSOCIATED STATES: AGENCIES SHOULD ENHANCE PROCEDURES TO ADDRESS MILLIONS OF DOLLARS IN QUESTIONABLE EXPENDITURES" GAO-23-106160)**

The U.S. Department of Health & Human Services (HHS) appreciates the opportunity from the Government Accountability Office (GAO) to review and comment on this draft report.

**Recommendation 1**

The Secretary of Health and Human Services should take appropriate action, such as dedicating adequate staffing resources, to ensure that management decisions for questioned cost identified in single audits for FSM, RMI and Palau are issued within the required timeframe.

**HHS Response**

HHS concurs with the GAO recommendation. HHS has existing processes and tools in place to ensure that management decisions for questioned costs identified in recipients' single audit reports are issued within the required timeframe. The HHS system to assign and track single audit findings flags questioned cost and other high risk findings for priority resolution and notifies HHS awarding agencies when management decision deadlines are imminent or past due. HHS also tracks the timeliness of management decisions for questioned cost and other high risk findings, and it provides regular status updates to HHS awarding agencies, including via a monthly stewardship report. The HHS Single Audit Resource Center, which HHS uses to monitor questioned cost disallowances and recoveries, also notifies awarding agencies about questioned cost findings and the requirement to resolve questioned cost amounts.

**Recommendation 3**

The Secretary of Health and Human Services should revise its guidance to specify when HHS monitoring of award recipients' corrective actions related to questioned costs should begin and how frequently it should occur.

**HHS Response**

HHS concurs with the GAO recommendation. HHS awarding agencies determine if they agree with auditors' questioned cost findings and, if so, whether they approve recipients' proposed corrective action plans (CAPs) to address the underlying internal control deficiency or deficiencies. HHS awarding agencies also identify and recover questioned cost disallowances, as appropriate.

A recipient's single audit is due to the Federal Audit Clearinghouse within the earlier of 30 calendar days after the recipient receives the single audit from the auditor or 9 months after the end of the recipient's fiscal year, when audit finding corrective actions are often well underway. Prior to issuing final management decisions for questioned cost findings, HHS awarding agencies request documentation from recipients that can inform determinations regarding how much, if any, of the questioned costs to disallow. If HHS awarding agencies approve the associated CAPs, they may also request CAP status updates prior to issuing final management decisions.

After identifying questioned cost disallowance amounts, HHS awarding agencies initiate recoveries and post regular updates to the HHS Single Audit Resource Center (SARC), including

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**Appendix I: Comments from the Department of  
Health and Human Services**

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how much they have collected, offset, and/or written off, as appropriate. HHS reviews the SARC submissions on a quarterly basis and follows-up with the awarding agencies, as needed.

HHS will update the HHS Single Audit Resolution Standard Operating Procedure to specify that awarding agencies request CAP status updates from recipients prior to issuing final management decisions for questioned cost findings. HHS awarding agencies also have the discretion to request additional CAP status updates before the recipient submits the next single audit report.

In summary, HHS will monitor the status of CAPs for questioned cost findings at least twice per year: 1) prior to issuing the final management decision for the questioned cost finding, and 2) when the recipient submits the next single audit report to determine if the questioned cost finding repeated. HHS will continue to use the SARC to monitor the status of recoveries for questioned cost disallowances on a quarterly basis.

# Appendix II: Comments from the Department of the Interior



## United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, DC 20240

September 8, 2023

Latesha Love-Grayer  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Director Love-Grayer:

Thank you for providing the Department of the Interior (Department, Interior) the opportunity to review and comment on the draft Government Accountability Office (GAO) report titled, *FREELY ASSOCIATED STATES: Agencies Should Enhance Procedures to Address Millions of Dollars in Questionable Expenditures* (GAO-23-106160). We appreciate GAO's review of the Interior's Office of Insular Affairs (OIA) process related to processing single audit reports of the freely associated states, particularly for OIA's issuance of management determination letters as they relate to single audit findings with associated questioned costs.

The GAO issued four recommendations to Interior as part of its overall findings. Below is a summary of actions taken or planned by the Department to implement the recommendations.

**Recommendation 2:** The Secretary of the Interior should take appropriate action, such as dedicating adequate staffing resources, to ensure that management decisions for questioned costs identified in single audits for FSM, RMI, and Palau are issued within the required timeframe.

**Management Response:** Concur. OIA agrees that it needs to consistently evaluate staffing resources to ensure management decisions for questioned costs identified in single audits are issued within the required timeframe. Pursuant to GAO's recommendation, OIA conducted a review of its resources, and based on that review, OIA found that currently, staff assigned to issue management decisions for questioned costs have sufficient resources to comply with applicable deadlines. OIA will formally follow-up with relevant staff to ensure that they are aware of roles, responsibilities, and associated timelines related to management decisions for questioned costs and continue to evaluate any need for additional staff in line with budgetary resources.

**Responsible Official:** Audit Liaison Officer for OIA  
**Target Date:** November 30, 2023

**Recommendation 4:** The Secretary of the Interior should establish a mechanism to track over time the results of efforts to resolve questioned costs identified in single audits for FSM, RMI and Palau.

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**Appendix II: Comments from the Department  
of the Interior**

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**Management Response:** Concur. OIA agrees that it should establish a mechanism to track over time the results of efforts to resolve questioned costs identified in single audits. OIA has updated its tracking mechanism in response to GAO's recommendation and is updating that tracking mechanism to reflect current data. OIA will continue to update the tracking mechanism with data as it become available.

**Responsible Official:** Audit Liaison Officer for OIA  
**Target Date:** November 30, 2023

**Recommendation 5:** The Secretary of the Interior should notify the auditor of the RMI 2019 single audit about any inaccuracies in the RMI's single audit report, as federal regulation requires.

**Management Response:** Concur. OIA agrees that it should notify the auditor of the RMI 2019 audit and is in the process of communicating with RMI Government personnel responsible for providing that information to its contracted independent audit firm to help ensure that items showing as outstanding in RMI's 2019 single audit are properly cleared.

**Responsible Official:** Audit Liaison Officer for OIA  
**Target Date:** December 31, 2023

**Recommendation 6:** The Secretary of the Interior should document its single audit-related procedures for resolving single audit findings, including questioned costs, for FSM, RMI, and Palau.

**Management Response:** Concur. OIA is in the process of updating its formal procedures related to resolving single audit findings for the freely associated states, including questioned costs.

**Responsible Official:** Audit Liaison Officer for OIA  
**Target Date:** December 31, 2023

If you have any questions, please communicate with John Brewer, Director of the Office of Insular Affairs, email [john\\_brewer@ios.doi.gov](mailto:john_brewer@ios.doi.gov) or phone number (202) 208-4736. Alternatively, you or your staff may wish to communicate with Basil Ottley, Director of the Policy Division, email [basil\\_ottley@ios.doi.gov](mailto:basil_ottley@ios.doi.gov) or phone number (202) 208-5655, or Marina Titali, Audit Liaison Officer, email [marina\\_titali@ios.doi.gov](mailto:marina_titali@ios.doi.gov) or phone number (202) 208-5920.

Sincerely,



Carmen G. Cantor  
Assistant Secretary  
Insular and International Affairs



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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Latesha Love-Grayer, (202) 512-4409 or [LovegrayerL@gao.gov](mailto:LovegrayerL@gao.gov)

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## Staff

## Acknowledgments

In addition to the contact named above, Joe Carney (Assistant Director), Jeff Isaacs, Reid Lowe, Mark Dowling, Matthew Valenta, and Terry Richardson made key contributions to this report.

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