

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.

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.