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# **COMPACTS OF FREE ASSOCIATION: Implications of Planned Ending of Some U.S. Economic Assistance**

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**Presentation of GAO-22-104436  
May 24, 2022**



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## Reporting Objectives

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Our report examines for the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and the Republic of Palau:

- (1) The use and role of U.S. funds and programs in the countries' budgets,
- (2) The projected fiscal effects of the ending of compact grants and certain programs and services, and
- (3) The record of accountability for the use of U.S. funds.



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# Background on Compacts of Free Association with FSM, RMI, and Palau

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- The U.S. entered into Compacts of Free Association with FSM and RMI in 1986 and amended that compact in 2003.
- The U.S. entered into Compacts of Free Association with Palau in 1994 and entered into a Compact Review Agreement in 2018.
- Through the Compacts, the U.S.:
  - has responsibility for defense and security matters.
  - allows eligible Freely Associated States citizens to enter, reside, and work in the U.S.
  - has provided economic assistance – in the form of grants and programs and services – intended to promote FSM's, RMI's, and Palau's economic advancement and self-sufficiency.
  - has made contributions to each countries' compact trust fund intended to provide long term budgetary support after compact assistance ends.
- Certain provisions of the Compacts are set to expire after FY 2023 for FSM and RMI and after FY 2024 for Palau.



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# Background on U.S. Compact Assistance to FSM, RMI, and Palau

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Compact grants generally support the countries in the following sectors:

- Education\*
- Health\*
- Infrastructure\*
- Environment\*
- Private sector development\*
- Public sector capacity building\*
- Financial audits\*
- Emergency management\*
- Infrastructure maintenance\*\*

## Supplemental education grant (SEG)

- support direct educational services at the local school level in FSM and RMI\*

Programs and services support these countries' with:

- FEMA disaster assistance and response\*
- Postal
- Aviation
- Weather
- Federal deposit insurance\*\*\*
- Telecommunications
- Judicial training\*

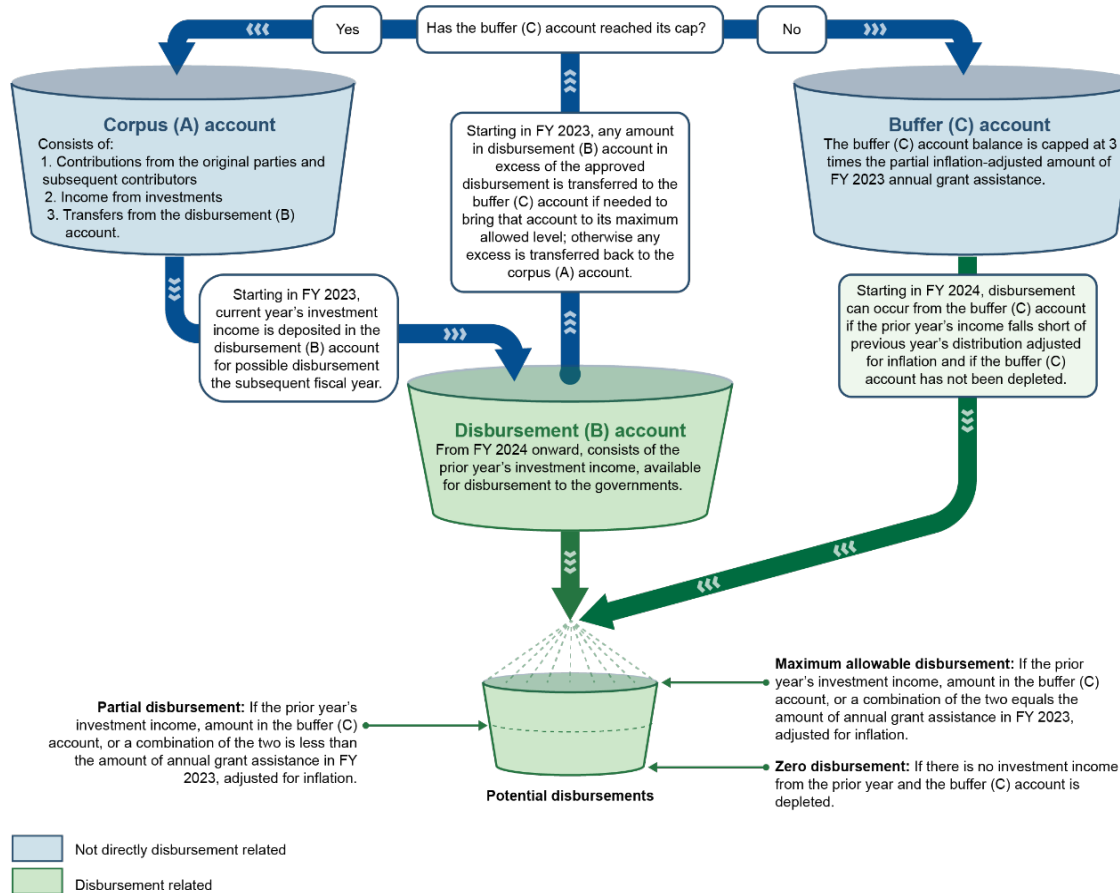
Trust fund contributions are meant to provide long-term budgetary support after compact assistance ends.

\*Does not apply to Palau

\*\*Palau only

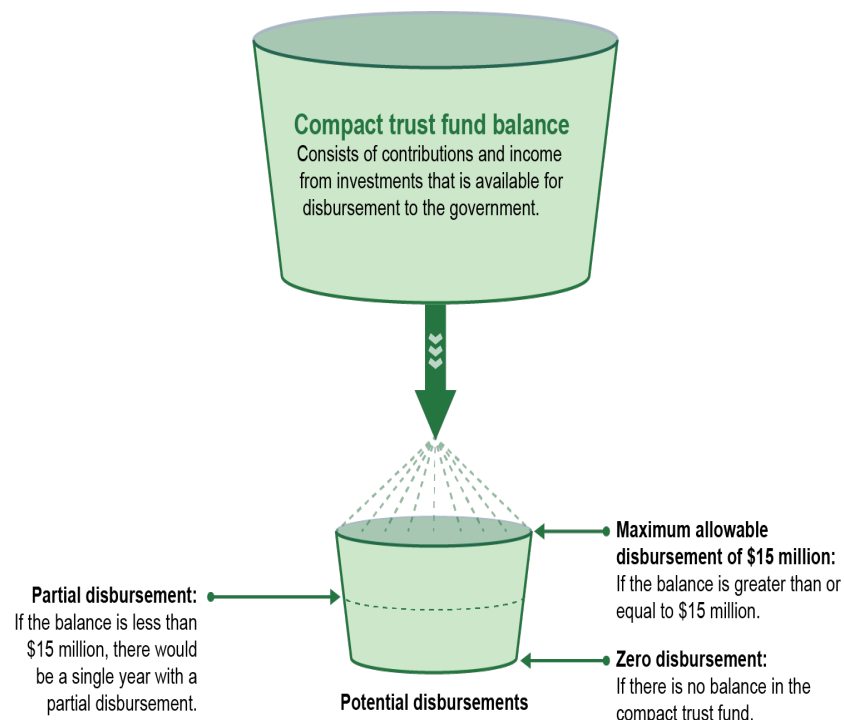
\*\*\*Does not apply to RMI or Palau

# Potential Disbursements for FSM and RMI Compact Trust Funds, Starting in FY 2024



Source: GAO analysis of Federated States of Micronesia (FSM) and Republic of the Marshall Islands (RMI) Compact Trust Fund Agreements. | GAO-22-104436

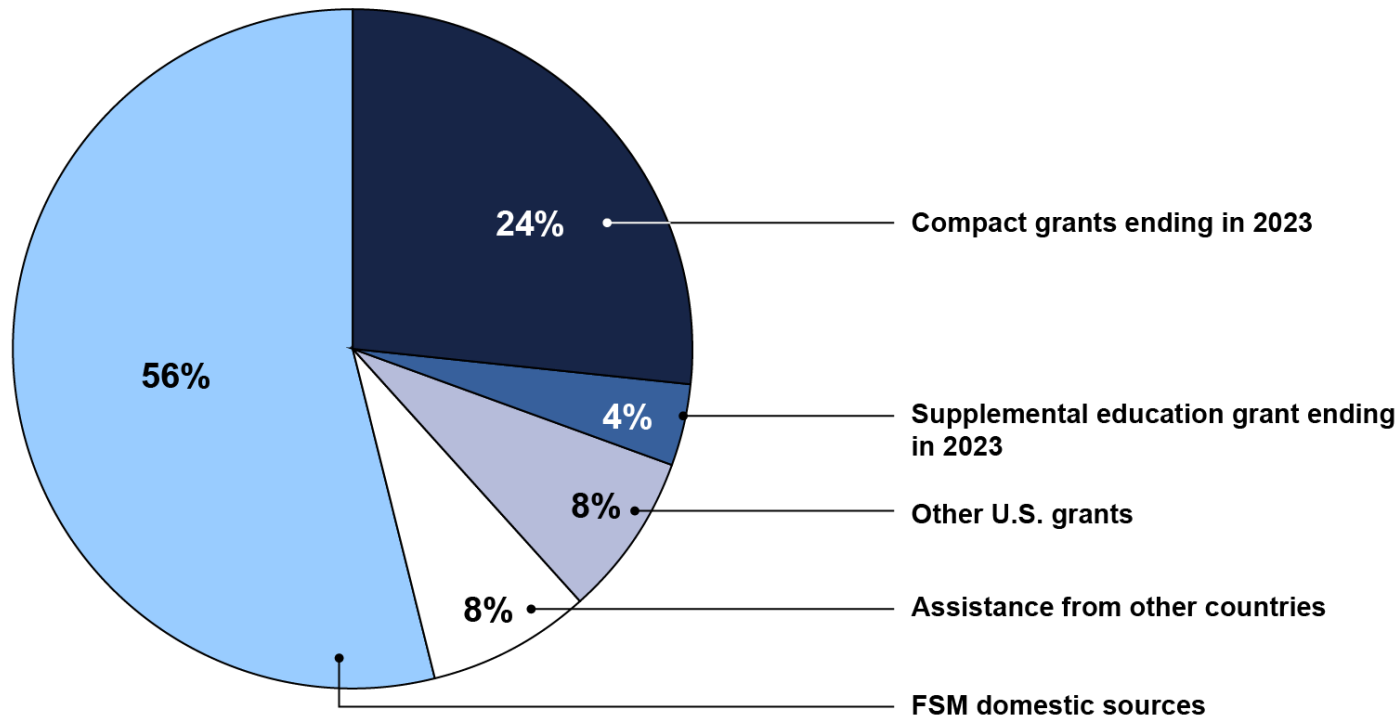
# Current Compact Trust Fund Disbursement Structure for Palau



Source: GAO analysis of Republic of Palau compact trust fund documents. | GAO-22-104436

# Total Expenditures of the FSM National and State Governments, by Source, Fiscal Year 2019

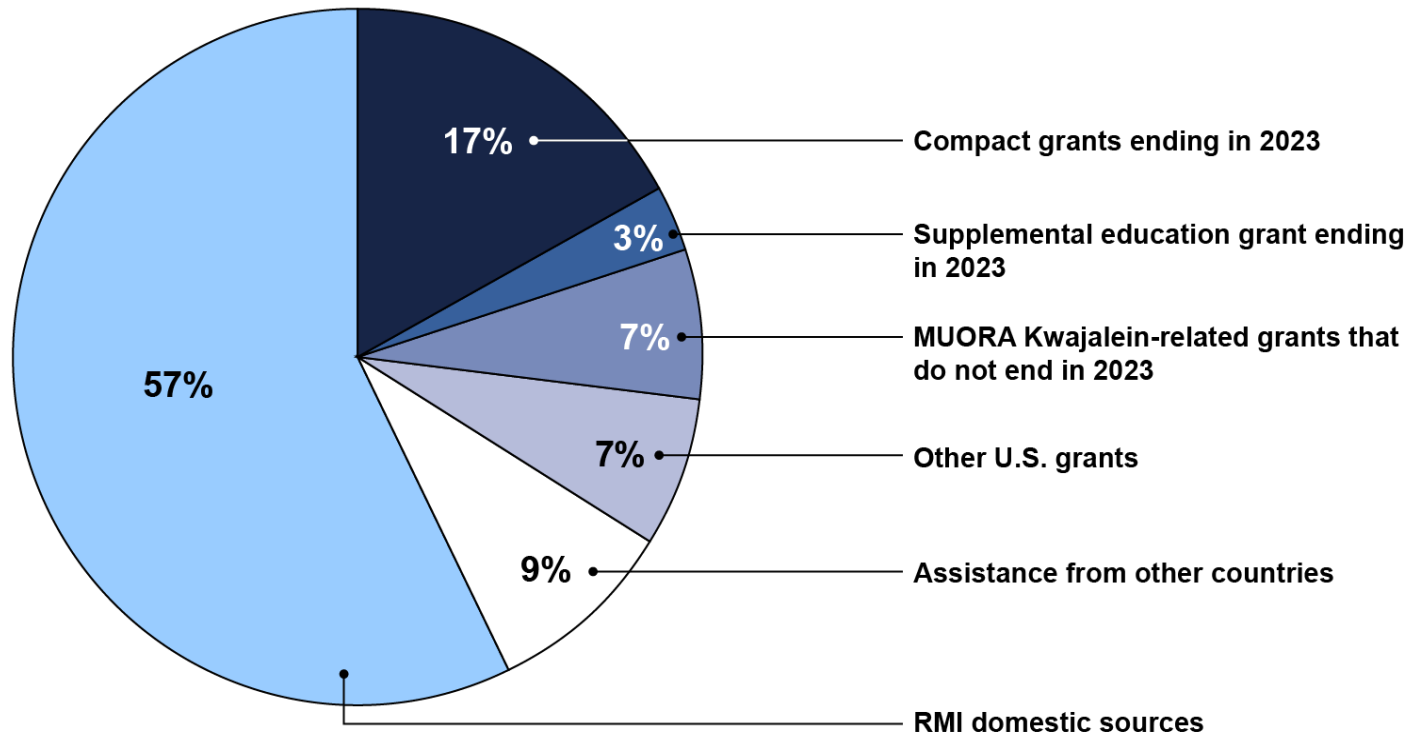
FY 2019 total expenditures = \$232.7 million



Source: GAO analysis of the Federated States of Micronesia (FSM) national and state single audits for fiscal year 2019. | GAO-22-104436

# Total Expenditures of the RMI Government, by Source, Fiscal Year 2019

FY 2019 total expenditures = \$164.8 million

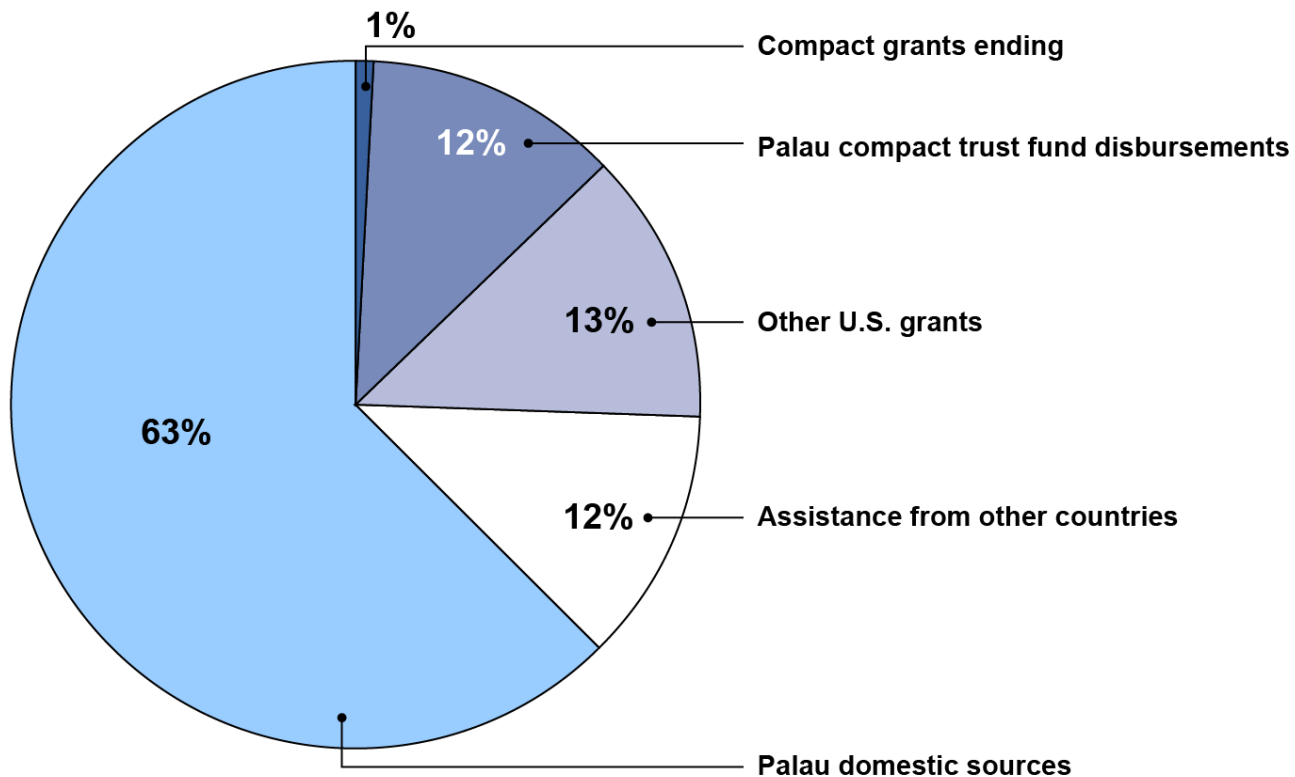


Source: GAO analysis of the Republic of the Marshall Islands (RMI) single audit for fiscal year 2019. | GAO-22-104436



# Total Expenditures of the Palau Government, by Source, Fiscal Year 2019

FY 2019 total expenditures = \$129.0 million



Source: GAO analysis of Palau single audit for fiscal year 2019. | GAO-22-104436

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## Estimated Compact-Related Annual U.S. Assistance That Will End

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Type of assistance	Dollars (in millions)
U.S. grant assistance included in FSM government expenditures.	93.03
U.S. services not included in past FSM government expenditures.	15.90
<b>Total grants and services</b>	<b>108.93</b>

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## Estimated Compact-Related Annual U.S. Assistance That Will End

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Type of assistance	Dollars (in millions)
U.S. grant assistance included in RMI government expenditures.	32.81
U.S. services not included in past RMI government expenditures.	6.75
<b>Total grants and services</b>	<b>39.55</b>

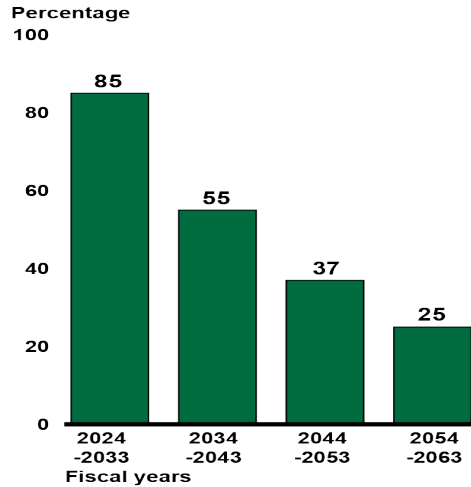
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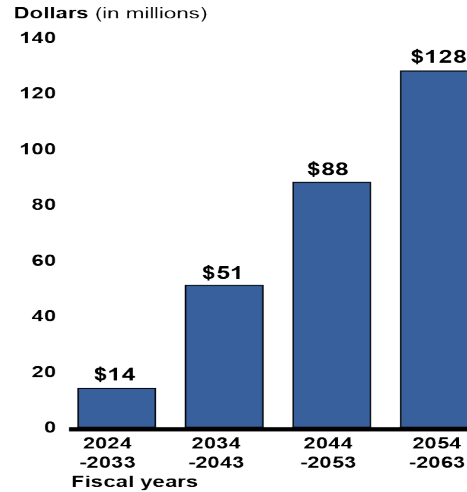
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Type of assistance	Dollars (in millions)
U.S. grant assistance included in Palau government expenditures.	2.00
U.S. services not included in past Palau government expenditures.	2.61
<b>Total grants and services</b>	<b>4.61</b>

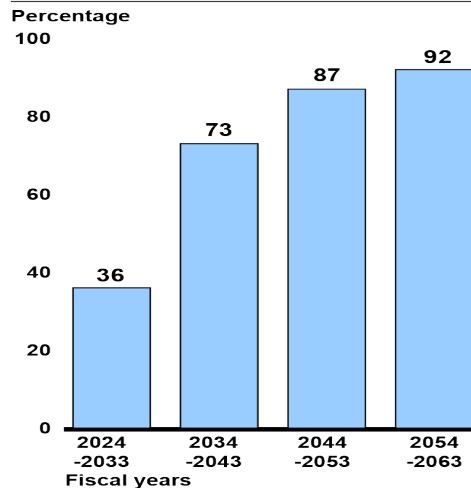
**Disbursement: projected average disbursement as a percentage of maximum disbursement**



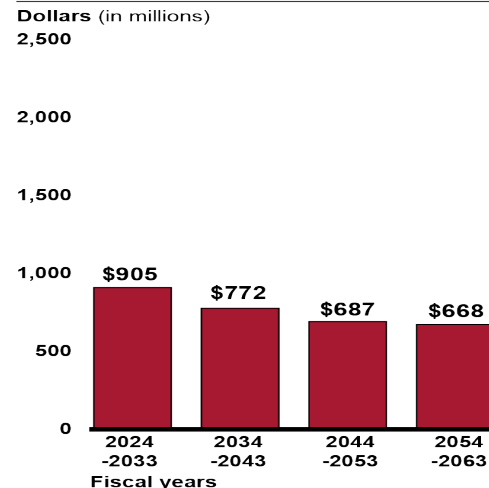
**Average shortfall: maximum disbursement less projected disbursement**



**Zero disbursement: likelihood of one or more years with zero disbursement in a given period**

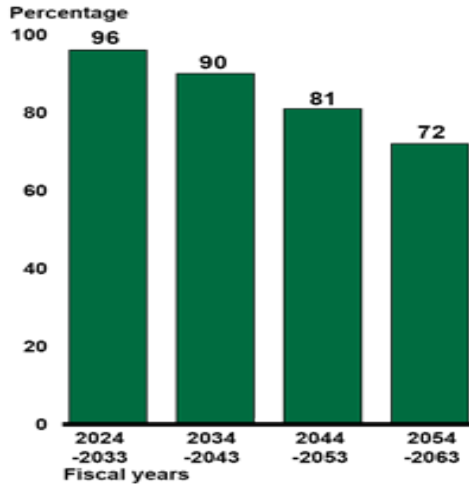


**Compact trust fund balance: projected average balance**

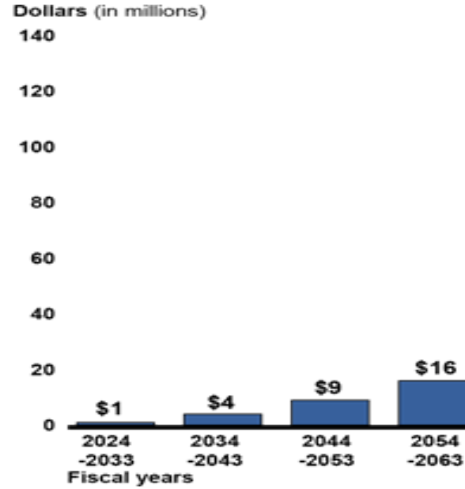


Source: GAO analysis of Federated States of Micronesia (FSM) compact trust fund documents. | GAO-22-104436

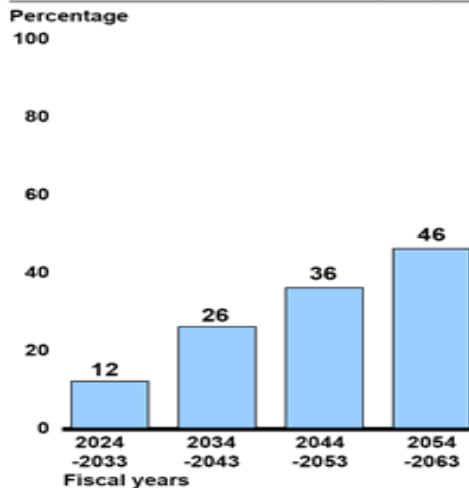
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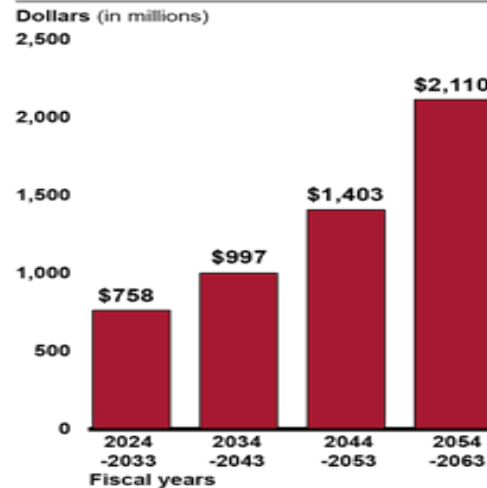
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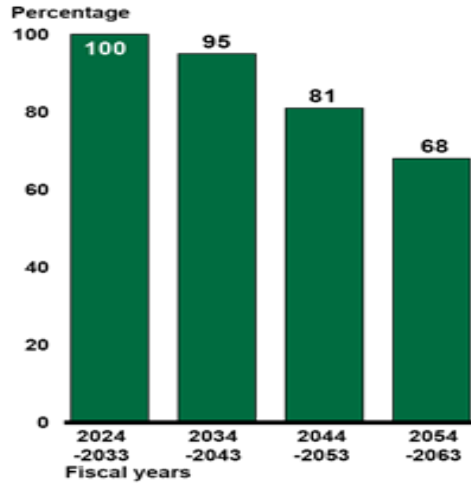


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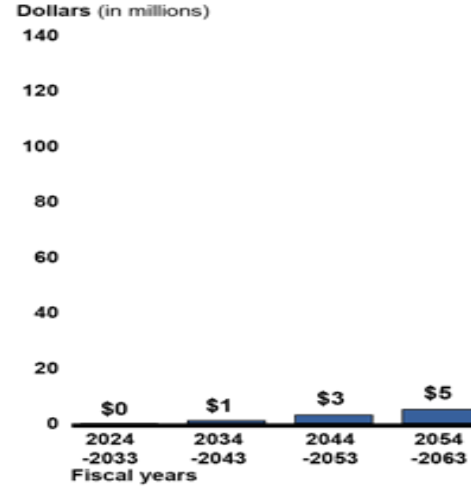


Source: GAO analysis of Republic of Marshall Islands (RMI) compact trust fund documents. | GAO-22-104436

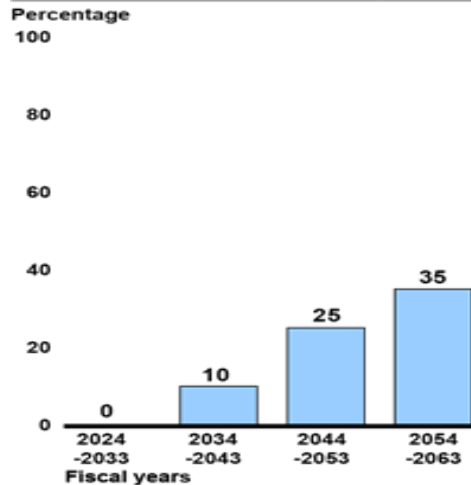
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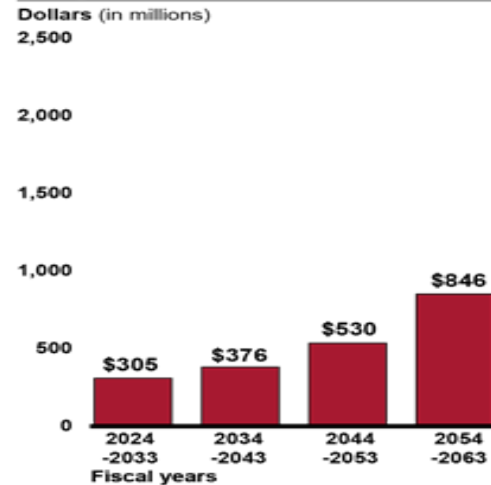
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**Compact trust fund balance: projected average balance**



Source: GAO analysis of Republic of Palau compact trust fund documents. | GAO-22-104436

## Selected Information from Single Audits of the FSM National Government and Four State Governments, FYs 2015–2019

Single audit information	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Financial reporting (auditor's opinion and number of opinions)	U(3) Q(1) A(1)	U(2) Q(2) A(1)	U(2) Q(2) A(1)	U(2) Q(2) A(1)	U(2) Q(2) A(1)
Compliance with requirements of major federal programs (auditor's opinion and number of opinions)	U(2) Q(3)	U(4) Q(1)	U(4) Q(1)	U(3) Q(2)	U(2) Q(3)
Audit findings (total number)	23	15	9	11	19
Questioned costs (thousands of dollars)	6,556	2,401	1,254	1,238	1,999

Key: U = unmodified opinion; Q = qualified opinion; A = adverse opinion



## Selected Information from Single Audits of the Republic of the Marshall Islands Government, FYs 2015–2019

Single audit information	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Financial reporting (auditor's opinion and number of opinions)	U	U	U	U	U
Compliance with requirements of major federal programs (auditor's opinion and number of opinions)	Q	Q	Q	Q	Q
Audit findings (total number)	20	12	11	11	7
Questioned costs (thousands of dollars)	3,520	2,510	2,160	2,519	3,702

Key: U = unmodified opinion; Q = qualified opinion; A = adverse opinion

## Selected Information from Single Audits of the Republic of Palau Government, FYs 2015–2019

Single audit information	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Financial reporting (auditor's opinion and number of opinions)	U	U	U	U	U
Compliance with requirements of major federal programs (auditor's opinion and number of opinions)	Q	Q	Q	Q	Q
Audit findings (total number)	18	13	13	6	7
Questioned costs (thousands of dollars)	427	320	262	489	359

Key: U = unmodified opinion; Q = qualified opinion; A = adverse opinion

## Timeline of Actions Taken by U.S. and Palau Governments in Formation of the Palau Advisory Group on Economic Reform

Action	Date taken
Compact agreement includes provision to establish the Palau Advisory Group on Economic Reform.	September 2018
U.S. and Palau each designate their two resident members (four total).	June 2019
Palau requests procedural change and submits one candidate, rather than the required three, to act as the fifth nonresident member and requests a response from the U.S.	January 2020
Palau officials indicate that the U.S. government has not responded to their procedural change request.	As of August 2021
U.S. and Palau have not established a timetable to select the fifth member.	As of August 2021
Palau submits the names of three candidates for consideration as fifth nonresident member.	January 2022
Advisory group scheduled to terminate unless otherwise agreed by the Palau and U.S. governments.	September 2023

## Recommendation for Executive Action

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Recommendation: The Secretary of State, working with the Department of the Interior, should establish timeframes with milestones to constitute the Palau Advisory Group on Economic Reform before its 2023 termination date.

- State concurred with our recommendation and stated that it will seek to establish a timeframe, in coordination with the Department of Interior, with the government of Palau to constitute the Palau Advisory Group on Economic Reform, consistent with the Compact Review Agreement, as amended.

We had previously recommended in 2018 that Interior work with other members of the trust fund committees to develop a distribution policy for the FSM and RMI compact trust funds that takes into account potential strategies that could address risks to the funds' ability to provide a source of income after fiscal year 2023. Interior concurred with the recommendation and indicated that the target date for implementation was October 1, 2023.

- In 2021, we reiterated this recommendation in a priority recommendation letter to Interior.