TWENTY-FOURTH CONGRESS OF THE FEDERATED STATES OF MICRONESIA

FOURTH SPECIAL SESSION, 2026 C.B. NO. 24-230

A BILL FOR AN ACT

To further amend title 55 of the Code of the Federated States of Micronesia (Annotated), as amended, by amending sections 302, 311, and 316, as amended by Public Law No. 23-41, to insert definitions for "pass-through funds" and "Subrecipient"; to clarify the purpose and accounting requirements of the Compact Financial Assistance Fund; to enact a new section 311A regarding subrecipient monitoring of pass-through funds; to clarify the internal reporting requirements of pass-through funds; and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

Section 1. Section 302 of Title 55 of the Code of the Federated States of Micronesia (Annotated), as amended by Public Law No. 23-41, is hereby further amended to read as follows:

"Section 302. Definitions.

For purposes of this chapter only, the following terms shall have the following meanings:

(1) '2003 Trust Fund Agreement' means the *Agreement Between the Government of the Federated States of Micronesia and the Government of the United States of America Implementing Section 215 and Section 216 of the Compact, as Amended Regarding a Trust Fund,* done at Palikir on May 14, 2003.

(2) '2004 Fiscal Procedures Agreement' means the *Agreement Concerning Procedures for the Implementation of United States Economic Assistance Provided in the*

Compact of Free Association, as amended, Between the Government of the Federated States of Micronesia and the Government of the United States of America, done at Palikir on February 27, 2004.

(3) '2023 Amended Compact' means the Amended Compact, as amended by the *Agreement Between the Government of the Federated States of Micronesia and the Government of the United States of America to Amend the Compact of Free Association, as Amended,* done at Palikir on May 23, 2023.

(4) '2023 Fiscal Procedures Agreement' means *Agreement Concerning Procedures for the Implementation of United States Economic Assistance Provided in the 2023 Amended Compact Between the Government of the Federated States of Micronesia and the Government of the United States of America,* done at Palikir on May 23, 2023.

(5) '2023 Trust Fund Agreement' means the *Agreement Between the government of the Federated States of Micronesia and the Government of the United States of America Regarding the Compact Trust Fund,* done at Palikir on May 23, 2023.

(6) 'Accrued Expenditures' means charges incurred by a Government during a given period requiring the provision of funds for: (a) goods and other tangible

property received; (b) services performed by employees, contractors, sub-grantees, subcontractors, and other third party non-contractors; and (c) other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments, all as evidenced by a pending disbursements report.

(7) 'Amended Compact' means the *Compact of Free Association, as Amended Between the Government of the United States of America and the Government of the Federated States of Micronesia,* done at Palikir on May 14, 2003, which entered into force on June 25, 2004.

(8) 'Annual Financial Report' means the report required under Article VI(1)(b)(i) of the 2023 Fiscal Procedures Agreement.

(9) 'Annual Implementation Plan' means the plan required under Article V(3) of the 2023 Fiscal Procedures Agreement.

(10) 'Annual Performance Report' means the report required under Article VI(2)(a) of the 2023 Fiscal Procedures Agreement.

(11) 'Audit Grant' means a grant to the Government of the Federated States of Micronesia to conduct the annual Audits required under Article VIII of the 2023 Fiscal Procedures Agreement.

(12) ‘Audits’ mean financial, program and management audits, including the determination as to whether the Government of the Federated States of Micronesia has met the requirements set forth in the 2023 Amended Compact, or its related agreements, regarding the purpose for which Sector Grants or other assistance are to be used; determinations as to the propriety of the financial transactions of the Government of the Federated States of Micronesia with respect to such Sector Grants or assistance; and the substantiation of appropriate follow-up actions by the Signatory Governments.

(13) ‘Closeout’ means the normal process by which the awarding agency determines that all applicable administrative actions and all required work on the Grant have been completed.

(14) 'Compact' means the Compact of Free Association, as amended, and its related agreements entered into by the Government of the Federated States of Micronesia and the Government of the United States and enacted as United States Public Law No. 108-188, unless otherwise specified herein.

(15) 'Compact Budget Request' means the annual Compact funding request for the upcoming Fiscal Year and estimated funding levels for the two subsequent Fiscal

Years.

(16) 'Congress' means the Congress of the Federated States of Micronesia, unless otherwise specified herein.

(17) ‘Contract’ means a Contract funded under a Sector Grant or Sub-Grant. It also means a sub-contract under a Contract.

(18) 'Fiscal Year' means each one year period beginning October 1 and ending on the next following September 30. Each Fiscal Year shall be designated by the number of the calendar year in which such Fiscal Year ends.

(19) 'Government' means a State Government or the National Government of the Federated States of Micronesia, unless otherwise specified.

(20) 'Grant Award' means a formal award of a Sector Grant, Audit Grant, Infrastructure Maintenance Fund contribution or Disaster Assistance Emergency Fund contribution, in the form of money, or property in lieu of money, by the Government of the United States of America to the Government of the Federated States of Micronesia under the 2023 Amended Compact. The term does not include technical assistance instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance,

or direct appropriations.

(21) 'Infrastructure Development Plan' means the plan required under Article V(2) of 2023 Fiscal Procedures Agreement.

(22) 'Infrastructure Maintenance Fund' means the maintenance assistance account established by the Government of the Federated States of Micronesia pursuant to Section 211 of the Amended Compact and Article VII of the 2004 Fiscal Procedures Agreement.

(23) 'JEMCO' means the Joint Economic Management Committee established pursuant to the Compact and the 2004 Fiscal Procedures Agreement.

(24) 'Obligation' shall have the same meaning as defined in the respective Financial Management Acts of the Governments.

(25)'Operational Grants' means Sector Grants other than the Sector Grants for infrastructure.

(26) 'Original Compact' means the Compact of Free Association between the Government of the Federated States of Micronesia and the Government of the United States in the form that was effective as of November 3, 1986 through September, 2003.

(27) 'Pass-through funds' means funds received by the National Government pursuant to operational grants and distributed to the State Governments as

subrecipients of such funds.

[~~(27)~~] (28) 'Plan for the Division of Annual Economic Assistance' means the comprehensive plan for the division of economic assistance for a Fiscal Year, including Annual Grant budgets by Sector, as described in Article V, Section 1(b) of the 2004 Fiscal Procedures Agreement, and may include such additional reports, narratives, summaries, documentation and other information as the President deems appropriate.

[~~(28)~~] (29) 'Secretary' means the Secretary of the Department of Finance and Administration for the Federated States of Micronesia, or his successor in the executive structure of the National Government of the Federated States of Micronesia.

[~~(29)~~] (30) 'Sector' means one of the seven grant sectors described in Article I, Section 211 of the 2023 Amended Compact and Article II(1) of the 2023 Fiscal Procedures Agreement, as such sectors may be adjusted during the term of the Compact.

[~~(30)~~] (31) 'Sector Grant' means a Grant described in Article II(1) of the 2023 Fiscal Procedures Agreement for education, health care, public infrastructure, the environment, public sector capacity building, private sector development, enhanced reporting and accountability, or other sectors as mutually decided

by the Signatory Governments.

[~~(31)~~] (32) 'State' means any of the states of the Federated States of Micronesia.

[~~(32)~~] (33) 'Strategic Development Plan' means the development plan required under Section 261© of the 2023 Amended Compact.

[~~(33)~~] (34) 'Sub-Grant' means a subaward of a Grant, made by the Government of the Federated States of Micronesia to an eligible recipient, including but not limited to local governments.

(35) 'Subrecipient' means a State Government that receives pass-through funds and carries out a program or activity under a subaward."

Section 2. Section 311 of Title 55 of the Code of the Federated States of Micronesia (Annotated), as amended by Public Law No. 23-41, is hereby further amended to read as follows:

"Section 311. Compact Financial Assistance Fund.

(1) There is hereby created a "Compact Financial Assistance Fund" to be administered by and under the authority of the Secretary.

(2) The Compact Financial Assistance Fund shall be established at a bank or commercial financial institution organized in accordance with the laws of the United States or a state of the United States; or,

subject to the approval of the Government of the United States, a bank or commercial financial institution organized in accordance with the laws of the Federated States of Micronesia, in either case for the purpose of receiving payments of Grant funds pursuant to the Compact pursuant to Article IV(5)(a) of the 2023 Fiscal Procedures Agreement.

(3) The purpose of the Compact Financial Assistance Fund is to recognize and account for Compact funds received from the Government of the United States by the Government of the Federated States of Micronesia on behalf of itself and [~~each of the States from the time of receipt of such Compact funding and until such funding is disbursed to the respective Government to which such funding accrues~~] as pass-through funds to be distributed to the State Governments.

(4) Funds will be received into the Compact Financial Assistance Fund quarterly for Operational Grants and on the basis of Accrued Expenditure for Infrastructure Sector Grants.

(5) The accounting records and accounts maintained for the fund shall be in sufficient detail to provide a full and complete accounting of all Compact funds received by the Federated States of Micronesia, including pass-through funds distributed to the State Governments as

subrecipients of the funds. The accounting records shall include amounts received, awarded, disbursed, and outstanding balances."

Section 3. Title 55 of the Code of the Federated States of Micronesia (Annotated), as amended, is further hereby amended by enacting a new section 311A to read as follows:

Section 311A. Subrecipient Monitoring Framework.

Pursuant to the provisions of this chapter that empower the President to ensure accountable financial management of all Compact funds and the requirement that each recipient Government agrees to abide by all terms and conditions enumerated in each Sector Grant Award, the provisions of this chapter and the terms of the 2023 Amended Compact, including the 2023 Fiscal Procedures Agreement, the Secretary of Finance shall establish by regulation a subrecipient monitoring framework. The framework may include details regarding subaward agreements, monitoring protocols, reporting formats, and compliance documentation.

Section 4. Section 316 of Title 55 of the Code of the Federated States of Micronesia (Annotated), as amended by Public Law No. 23-41, is hereby amended to read as follows:

"Section 316. Internal Reporting Requirements.

(1) For each fiscal quarter, not later than twenty (20) days after the end of such fiscal quarter, each State Government and the Secretary shall submit to

the President the following reports:

(a) for all Governmental fund types:

(i) a statement of revenues and expenditures;

(ii) a comparison of budget and actual expenditures by function;

(b) with respect to Operational Grants, a budget execution report for each function, including major offices, cost centers, budget activities and performance reports, and any additional financial and performance reports as required by a subaward agreement of pass-through funds; and

(c) with respect to all Sector Grants for public infrastructure, including the Infrastructure Maintenance Fund contribution, the information required to complete a US Federal Form` SF-425 (or any successor to that form).

(2) The Members of JEMCO appointed by the Federated States of Micronesia shall at least twice annually submit written reports to the President, Congress and the States including the following information:

(a) a summary of actions taken by JEMCO since the date of the last report to Congress;

(b) a description of any significant

unresolved issues before JEMCO or relating to the Compact;

(c) the schedule for future JEMCO meetings.

Such reports shall be submitted to Congress no later than April 1 and September 15 of each year, and at such other times as there may be significant developments relating to the interpretation or implementation of the Compact.

(3) At least twice annually the members appointed by the Federated States of Micronesia to the Joint Trust Fund Committee, formed pursuant to the *Agreement Between the Government of the United States of America and the Government of the Federated States of Micronesia Implementing Section 215 and Section 216 of the Compact, As Amended, Regarding a Trust Fund*, shall submit reports to the President, Congress and the States including the following information:

(a) the current balance of the funds in the Compact Trust Fund and a comparison with the balances as of: (i) the same date of the previous year; and (ii) the date of the last previous report to Congress;

(b) an analysis of the performance of investments made with funds in the Compact Trust Fund, including a comparison with generally-

accepted measures of investment performance for the same period; and

(c) a description of significant investment strategy decisions relating to funds in the Compact Trust Fund.

Such reports shall be submitted to Congress no later than April 1 and September 15 of each year, and at such other times as there may be significant developments relating to the Compact Trust Fund."

Section 5. This act shall become law upon approval by the President of the Federated States of Micronesia or upon its becoming law without approval.

Date: 9/30/26 Introduced by: /s/ Fabian S. Nimea
Fabian S. Nimea