

Management Letter

**State of Kosrae
Federated States of Micronesia**

Year ended September 30, 2023



August 6, 2025

Management and Those Charged with Governance
State of Kosrae
Federated States of Micronesia

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Kosrae (the State) as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following other matters which we believe should be brought to the attention of management.

Segregation of Duties

We encourage management to revisit their control environment to ensure there are appropriate segregation of duties. No lone individual should have incompatible duties.

Potential incompatible duties exist if one individual performs duties in more than one category (authorization or approval, custody, or recording/reporting) or if an individual is responsible for performing a control over the same transaction for which the individual is responsible for recording/reporting. Management should assess whether there are written policies relating to segregation of duties, authorization, asset safeguarding and asset accountability.

When duties are properly segregated or monitored, the risk of material misstatement due to fraud is reduced. Without segregation of duties, there would be greater risk for increased possibility or errors going undetected and increased possibility for the occurrence of fraud.

Cross Training

We encourage management to implement cross training of accounting personnel. This would be beneficial in the event an individual were to be absent from work due to illness, vacation, or unexpected resignation. Cross training may improve internal controls. If employees are familiar with each other's duties and take over when a co-worker calls in sick or takes vacation, it creates a system of checks and balances that may help deter dishonest behaviors. Cross-training, plus mandatory vacation policies and regular job rotation, helps to promote a strong internal control environment in the accounting department.

This communication is intended solely for the information and use of management of the State, others within the organization, and the Office of Public Auditor, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public information.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP