

Management Letter

Chuuk State Government

Year ended September 31, 2023



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Ernst & Young LLP
P.O. Box 753
Kolonja Pohnpei, FSM 96941

Tel: 691 320 2781/5206
Fax: 691 320 5402
ey.com

October 1, 2025

Mr. Jonas Paul
Director
Department of Administrative Services
Chuuk State Government

In planning and performing our audit of the financial statements of Chuuk State Government (hereinafter referred to as the State) as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), 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 deficiency in internal control as described above:

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, equals strong internal controls in the accounting department.

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

Year-end Closing of Books

There were several revisions to the year end September 30, 2023 trial balance. This may be an indication for the need to improve the financial statement close process such as:

- improve procedures over timely reconciliations of accounts and
- ensure cut-off procedures are performed

Other

- There are several liability accounts, such as trade payables and judgment and claims, with balances as of September 30, 2023 that have not changed over prior years September 30, 2022 balance.
- Management should ensure that checks written are immediately remitted to the payee. This would help prevent the occurrence of checks being stale dated.
- Regarding Uniform Guidance audit requirements over reporting, we observed variances on some reports. In an effort to prevent future reporting errors, management should strengthen controls to ensure reports are accurately presented and reconciled to the underlying accounting records.

Mr. Jonas Paul
Chuuk State Government

October 1, 2025

This communication is intended solely for the information and use of the management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

At this time, we would like to extend our appreciation to the management, and the rest of the accounting staff for the excellent cooperation extended to us during our audit.

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

Sincerely,

Ernst + Young LLP