

Management Letter

**Federated States of Micronesia
National Government**

Year ended September 30, 2022



October 10, 2024

Management and Those Charged with Governance
Federated States of Micronesia
National Government

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 Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2022, 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 FSM National Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the FSM National Government'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.

Schedule of World Bank Projects

It is our understanding that the World Bank has requested FSM National Government to have its auditors provide some form of certification over the schedule of World Bank Project Financial Summary that is included as Other Information in the FSM National Government's audited financials statements.

We recommend that management gain familiarity with U.S. Auditing Standards AU-C Section 806 *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements*.

After gaining familiarity with the provisions of AU-C Section 806, management should then discuss with the World Bank of a course of action.

This communication is intended solely for the information and use of management of the FSM National Government, 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