

December 31, 2020

Secretary Eugene Amor  
Mister Secretary  
Federated States of Micronesia

Dear Secretary:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, 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, 2019, which collectively comprise the FSM National Government's basic financial statements (on which we have issued our report dated December 31, 2020) and which includes explanatory paragraphs concerning social security obligations, going concern and the impact of COVID-19, in accordance with the auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the FSM National Government's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FSM National Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FSM National Government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, other matters involving the FSM National Government's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention.

We have also issued a separate report to the President of the FSM, also dated December 31, 2020, on our consideration of the FSM National Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants..

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.



This report is intended solely for the information and use of the FSM National Government's management, the Office of the President, the Office of the FSM National Public Auditor, federal awarding agencies, and others within the organization 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 record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Department of Administrative Services for their cooperation and assistance during the course of the engagement.

Most respectfully,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

**SECTION I – OTHER MATTERS**

We identified, and have included below, other matters involving the FSM National Government’s internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

(1) Account Reconciliations

Comment: Of 45 cash accounts tested, the year-end adjusted balance per books did not agree with the balance recorded in the general ledger for nine accounts.

<u>Cash Account #</u>	<u>Adjusted book Balance as of 09/30/19</u>	<u>Per GL</u>	<u>Variance</u>
1012	\$ 334,163	\$ 334,698	\$ 535
1021	207,712	205,074	2,638
1023	111,914	112,235	322
1025	515,124	435,927	79,197
1026	152,245	156,201	3,956
1027	75,322	26,899	(48,424)
1051	3,533,752	3,524,485	9,267
1064	538,186	578,455	40,269
1080	28,660	34,806	6,146

Recommendation: The Government should perform timely reconciliations of all accounts.

(2) Long Outstanding Travel Advances

Comment: At September 30, 2019, travel advances of \$2.6 million continue to increase and include long outstanding balances from 2013-2018. This condition resulted in a proposed \$1.5 million audit adjustment.

Recommendation: The Government should timely liquidate travel vouchers in accordance with policy.

(3) AP Stale-dated Checks

Comment: At September 30, 2019, AP stale dated checks continue to increase and have been long outstanding. The beginning balance of \$1.9 million pertains to staled dated checks from FY16 and thereafter.

Recommendation: The Government should review and verify the validity of long outstanding stale dated checks.

(4) Capital Asset (Existence) – Missing Tag Number

Comment: The Government was not able to provide photos showing the asset tag number to agree to the fixed asset listing for asset FSM-014569.

Recommendation: The Government should tag movable assets with a corresponding tag number to agree to applicable property records.

**SECTION I – OTHER MATTERS, CONTINUED**

(5) Capital Asset (Existence) – Missing Vehicle Registration

Comment: The Government was not able to provide the vehicle registration for asset FSM-014569 to evidence that it is registered in the name of the FSM National Government.

Recommendation: The Government should provide related vehicle registrations to verify that vehicles are registered in the Government's name.

(6) Capital Asset (Existence) – Missing Photos for Verification

Comment: The Government was not able to provide photos to support verification of the existence of asset 10397.

Recommendation: The Government should provide photos to verify that physical existence.

(7) Capital Asset (Additions) – Missing Tag Number

Comment: The Government was not able to provide photos showing the asset tag number to agree to the fixed asset listing for asset NFA00676.

Recommendation: The Government should tag movable assets with a corresponding number to agree to underlying capital asset records.

**SECTION II – DEFINITION**

The definition of a deficiency is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

**MANAGEMENT’S RESPONSIBILITY FOR, AND THE OBJECTIVES AND INHERENT LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management’s responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

**Management’s Responsibility**

The FSM National Government’s management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

**Objectives of Internal Control over Financial Reporting**

An entity’s internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity’s assets that could have a material effect on the financial statements.

**Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any assessment of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.