

December 28, 2020

Board of Trustees
Federated States of Micronesia Social Security Administration

Dear Members of the Board of Trustees:

We have performed an audit of the financial statements of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of December 31, 2019, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated December 28, 2020.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Administration is responsible.

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

We wish to thank the staff and management of the Administration for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

cc: The Management of Federated States of Micronesia Social Security Administration

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated October 7, 2020. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether the statement of fiduciary net position of the Administration as of December 31, 2019 and the related statement of changes in fiduciary net position for the year then ended December 31, 2019 (the “financial statements”), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) and perform specified procedures on the required supplementary information for the year ended December 31, 2019;
- Express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- Report on the Administration’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2019 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Trustees are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Trustees of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Administration’s preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Administration’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Administration’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. During the year ended December 31, 2019, we are not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates.

SIGNIFICANT ACCOUNTING POLICIES

The Administration's significant accounting policies are set forth in Note 2 to the Administration's 2019 financial statements. During the year ended December 31, 2019, the Administration implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.
- GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units.

The implementation of these statements did not have a material effect on the Administration's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. With the exceptions of GASB Statement No. 90 and 84, management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

We have evaluated the significant qualitative aspects of the Administration's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE ADMINISTRATION

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the Administration issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the Administration's 2019 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Trustees.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Administration's 2019 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2019.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Trustees.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Administration's management and staff and had unrestricted access to the Administration's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Administration's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Administration is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

EMPHASIS OF MATTERS

As discussed in Note 4 to the financial statements, the Administration may be unable to meet its future benefit obligations. Our opinion is not modified with respect to this matter.

CONTROL-RELATED MATTERS

We also have issued a separate report to you, also dated December 28, 2020, on the Administration's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*.

We noted certain matters that we reported to management of the Administration in a separate letter dated December 28, 2020.

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December 28, 2020

Deloitte & Touche
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 Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of fiduciary net position of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of December 31, 2019 and 2018, and the related statements of changes in fiduciary net position for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and results of operations of the Administration in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the financial statements of the financial position of the Administration and fiduciary net position and changes therein in accordance with GAAP.
- b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the financial statements that are required by the Governmental Accounting Standards Board.
- c. The fair presentation of the additional information accompanying the financial statements that is presented for the purpose of additional analysis of the financial statements.
- d. The design, implementation, and maintenance of internal control:
 - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - To prevent and detect fraud
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for pension and other postemployment benefit system and cash and investment pools obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in accordance with GAAP. In addition:
 - a. Deposits and investment securities are properly classified in category of custodial credit risk.
 - b. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - c. Required supplementary information is measured and presented within prescribed guidelines.
 - d. Other supplementary information is measured and presented within prescribed guidelines.

2. The Administration has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Administration has made available to you:
 - a. All minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared. Meetings were held for the following dates:

February 11-13, 2019	May 21-23, 2019	June 26-27, 2019
February 24-26, 2020		

Subsequent to the February meeting, the Administration did not hold any Board meetings until December 28, 2020. Minutes for the December 28, 2020 meeting have not been prepared but nothing of significance was discussed that would require adjustments to, or disclosure in, the December 31, 2019 financial statements.
 - b. All financial records and related data for all financial transactions of the Administration and for all funds administered by the Administration. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Administration and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with regulatory agencies.

4. There has been no:
 - a. Action taken by Administration management that contravenes the provisions of federal laws and Federated States of Micronesia laws and regulations, or of contracts and grants applicable to the Administration.
 - b. Communication with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. The Administration has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Administration and do not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Administration involving:
 - a. Management.
 - b. Employees who have significant roles in the Administration's internal control.
 - c. Others, where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Administration's financial statements communicated by employees, former employees, analysts, regulators, or others.
8. There are no unasserted claims or assessments that we are aware of that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
9. Significant assumptions used by us in making accounting estimates are reasonable.
10. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
11. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.
12. We are responsible for compliance with FSM laws, rules and regulations, and provisions of grants and contracts relating to the Administration's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Administration is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
13. There have been no unusual or infrequent events or transactions, occurring after the latest benefit information date but before issuance of the Administration's financial statements that might affect the usefulness of its financial statements when assessing the Administration's present and future ability to pay benefits.
14. The Administration is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Administration has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Administration is also exposed to investment risk. This risk is limited to diversification of the portfolio, establishment and monitoring of investment policies and guidelines, and monitoring of investment performance. In addition, investment consultants monitor the Administration's activities and advise the Board of Trustees.

15. We believe that the actuarial assumptions and methods used by the actuary for funding purposes and for measuring the unfunded actuarial accrued liability as of January 1, 2017 are appropriate in the circumstances. Note 4 to the financial statements discloses all of the facts (i.e., significant conditions and events and management plans) of which we are aware that are relevant to Administration's ability to continue as a going concern. Specifically, Administration acknowledges that the funding ratio of the Retirement Fund as of October 1, 2017 is 15% and that these conditions indicate that Administration may be unable to meet its future benefit obligations.

Except where otherwise stated below, immaterial matters less than \$330,000, collectively, are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

16. There are no transactions that have not been properly recorded and reflected in the financial statements.
17. The Administration has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
18. Regarding related parties:
- a. We have disclosed to you the identity of the Administration's related parties and all the related-party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
19. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
 - b. The effect of the change would be material to the financial statements.
20. There are no:
- a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements, or other instances that warrant the attention of those charged with governance.
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
 - c. Known actual or likely instances of abuse that have occurred that could be quantitatively or qualitatively material to the financial statements.

- d. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 4 to the financial statements.
21. The Administration has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
22. The Administration has complied with all aspects of contractual agreements that may have an effect on the financial statements.
23. No department or agency of the Administration has reported a material instance of noncompliance to us.
24. There have been no changes in the method or significant assumptions used to determine the amount of unfunded actuarial accrued liability.
25. We agree with the findings of the actuary in determining the amount of unfunded actuarial accrued liability and have adequately considered the qualifications of the actuary in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the actuary with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the actuary.
26. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
27. Regarding supplementary information:
- a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
28. Management is aware of its responsibility to disclose whether, subsequent to December 31, 2019, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred. We represent to you that no such changes or corrective action has so occurred.

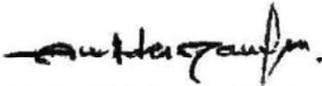
29. Receivables recorded in the financial statements represent valid claims or other charges arising on or before the date of the statements of net assets and have been appropriately reduced to their estimated net realizable value.
30. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
31. During the year ended December 31, 2019, the Administration implemented the following pronouncements, which did not have material effect on the financial statements:
- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
 - GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.
 - GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units.

The implementation of these statements did not have a material effect on the Administration's financial statements.

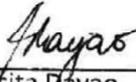
32. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
33. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.
34. In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
35. In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

- 36. In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. With the exceptions of GASB Statement No. 90 and 84, management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.
- 37. On September 15, 2005, an agreement was entered into between the PSTFA Board and the U.S. Department of the Interior to delegate the Board's obligations and responsibility for the enrollees eligible for Prior Service Benefits Program to the Social Security Systems of the Republic of the Marshall Islands, the Republic of Palau, the Federated States of Micronesia and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Social Security Administration (SSA) of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds. The Administration assumed administrative functions and for the years ended December 31, 2019 and 2018, received an allocation of \$322,599 and \$157,565, respectively, from PSTFA. Total benefit and administrative expenses for the years ended December 31, 2019 and 2018 amounted to \$280,761 and \$305,300, respectively. However, while the Administration accepts the liability for any amounts received, the Administration does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. As of December 31, 2019 and 2018, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$164,406 and \$122,203, respectively.
- 38. As a result of the spread of the COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. Uncertainties have arisen, which may have negative impact on the Administration's financial and operational results, especially in the fair value of its investment securities. Such potential impacts are unknown at this time.
- 39. Except for the matter discussed in item 38 above, no events have occurred after December 31, 2019 but before December 28, 2020, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the Administration's financial statements.

Very truly yours,



 Alexander R. Narruhn
 Administrator



 Teresita Dayao
 Controller