

December 26, 2020

The Honorable Reed B. Oliver
Governor, State of Pohnpei
Federated States of Micronesia

Dear Governor Oliver:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the State of Pohnpei (the State) as of and for the year ended September 30, 2019, which collectively comprise the State's basic financial statements (on which we have issued our report dated December 26, 2020) and which report was qualified with respect to GASB 70 noncompliance related to lack of recognition of a liability associated with a guaranteed debt obligation, and includes explanatory paragraphs concerning receivables from the FSM National Government 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 State'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 State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State'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 State'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 Governor of Pohnpei, also dated December 26, 2020, on our consideration of the State'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 State's management, the Office of the Governor, 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 Treasury and Administration 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, slightly stylized font.

SECTION I – OTHER MATTERS

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

(1) Collection of Overdue Receivables

Comment: Although receivable collections improved during the year, \$35,000 in third party accounts receivable remain outstanding for more than one year at 9/30/19.

Recommendation: Management should place an increased effort on collection procedures. Assigning an individual to be solely responsible for following up on past due accounts may be a consideration. In addition, monthly statements or reminders should be mailed to customers in order to remind customers of the amounts owed.

(2) Accounts Payable Voucher

Comment: For certain non-payroll expenditures, the accounts payable voucher was not approved by accounts payable personnel.

Recommendation: The Accounts Payable section should timely monitor, review and approve each accounts payable voucher.

(3) Missing Documents

Comment: Certain underlying documentation requested for payroll transactions could not be located. We were not able to determine the accuracy and validity of the transactions.

Recommendation: The Pohnpei State Government should maintain sufficient documentation on file to substantiate recorded costs.

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 State'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.