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December 2, 2022

Mr. Jared C. Morris
Chief Executive Officer
Federated States of Micronesia Petroleum Corporation
P.O. Box 1762
Kolonia, Pohnpei FM 96941

Dear Mr. Morris:

In planning and performing our audit of the consolidated financial statements of the Federated States of Micronesia Petroleum Corporation and Subsidiary (the Company), a component unit of the FSM National Government, as of December 31, 2021, (on which we have issued our report dated December 2, 2022), in accordance with auditing standards generally 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 Company'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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company'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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Company's internal control over financial reporting and other matters as of December 31, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated December 2, 2022, on our consideration of the Company'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.

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 Board of Directors, management, others within the organization, and the Office of the FSM National Public Auditor and is not intended to be and should not be used by anyone other than these specified parties.

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 Company for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I - DEFICIENCIES

We identified the following deficiencies involving the Company's internal control over financial reporting as of December 31, 2021 that we wish to bring to your attention:

(1) Capital Assets

Comment: The following capital asset matters were noted:

- 16 of 23 assets tested and 1 addition tested was not tagged.
- A complete physical count of capital assets has not been completed in the last five years.

Recommendation: We recommend management improve the capital asset tagging system to facilitate accurate record keeping and accountability. Additionally, we recommend management scrutinize the existing capital asset register to identify items that do not represent unique assets and perform physical verification procedures to identify those that are no longer in existence.

(2) Inventory - Engineering Parts

Comment: The Company does not have a formal policy for recognizing potential obsolescence on engineering parts.

Recommendation: We recommend management establish an inventory obsolescence policy. Furthermore, we recommend an inventory aging report be developed to facilitate analysis.

(3) Construction-in-Progress (CIP) Project Monitoring

Comment: An effective system of internal control includes policies and procedures related to periodic monitoring of capital project status that includes coordination between project management and the finance and accounting personnel. The following construction in progress matters were noted:

1. Two projects totaling $886,995 were on-hold as of December 31, 2021 due to the COVID19 pandemic and FSM travel restrictions. Management has not been able to perform an updated assessment as to the continuing pertinence and target completion of these projects.

2. Expense items (e.g., food allowance, travel, hotel expenses and professional fees) not directly attributable to bringing the assets into service totaling approximately $2,000 were capitalized as CIP.

Recommendation: We recommend management conduct a comprehensive and periodic review of the stage of completion of CIP projects that were put on hold due to COVID19 pandemic and determine those that are no longer relevant and valid. Furthermore, we recommend management strengthen internal control policies and procedures over determining and identifying costs that are allowed to be capitalized in accordance with applicable accounting standards.

SECTION II - OTHER MATTERS

Other observation concerning other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Lease Agreements

Comment: For 2 of 33 leases tested, updated signed lease agreements were not available.

Recommendation: We recommend management perform timely monitoring and scrutiny of lease agreements.

SECTION II - OTHER MATTERS, CONTINUED

(2) Prepayments

Comment: Prepayments included non-moving items for more than 1 year of approximately $66,000 which were noted to be related to a certain project that remains to be reconciled and recorded in the project cost.

Recommendation: We recommend management perform timely review of prepayments and allocation to the projects.

SECTION III - DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 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 Company's management is responsible for the overall accuracy of the consolidated financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

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 evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.