

June 25, 2007

Honorable Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia:

In planning and performing our audit of the financial statements of State of Yap (the State) for the year ended September 30, 2006, which collectively comprise the State's basic financial statements (on which we have issued our report dated June 25, 2007 and which report was modified to include a reference to other auditors), we developed the following recommendations concerning certain matters related to State of Yap's (the State) internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

Finding Number 2006-01 - Cash

Findings: Discrepancies in bank reconciliations exist as follows:

- The general checking account noted an unreconciled variance of \$12,335
- The payroll checking account indicated an unreconciled variance of \$12,108
- An outstanding check in the payroll checking account was listed as \$29,356 instead of \$29.56, which created an unreconciled variance of \$29,326.
- The deposit clearing account balance of \$37,500 should have been included in the September 30, 2006 bank reconciliations, but was not so reflected.

Cash deposits do not always appear timely.

Cash collections from the hospital do not appear to be made daily. Rather, hospital collections appear to be deposited every three days.

Recommendation: We recommend that all bank accounts be fully reconciled on a monthly basis and that the reconciliations be subject to independent review and verification.

Additionally, cash deposits should occur daily.

Cash collections from the hospital should occur daily and surprise cash audits of the hospital's cash should occur.

Finding Number 2006-02 – Annual Leave

Finding: For four of seven annual leave payments tested, annual leave hours paid were not supported by time sheets.

Recommendation: We recommend that timesheets support all leave taken.

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Finding Number 2006-03 – Encumbrances

Finding: As of April 30, 2007, the State recorded some \$689,484 in encumbrances that originated in fiscal year 2005. Additionally, obligating documents could not be located for approximately \$237,000 of these encumbrances.

Recommendation: We recommend that a quarterly analysis occur of all dated encumbrances to reestablish that such are valid and are consistent with the State's financial priorities.

Finding Number 2006-04 – Appropriation Reconciliations

Finding: The State does not appear to reconcile appropriation balances on a regular basis. Additionally, certain continuing appropriations could not be reconciled to official State expenditure status reports.

Recommendation: We recommend that the State perform a quarterly reconciliation of appropriation balances.

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We have also communicated certain matters noted during our audit of financial statements of the State of Yap (the State) for the year ended September 30, 2006, which we considered to be reportable conditions in our report dated June 25, 2007.

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

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

