

June 15, 2007

Honorable Johnny P. David
Governor, State of Pohnpei
Federated States of Micronesia:

In planning and performing our audit of the financial statements of State of Pohnpei (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 15, 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 Pohnpei'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 - Encumbrances

Criteria: Encumbrances should be reviewed on a timely basis for validity.

Condition: Encumbrances totaling \$430,597 have been dormant over a year.

Cause: There appears to be weak internal controls over ensuring that encumbrances are monitored to ensure their ongoing relevance to State priorities.

Effect: A misstatement in encumbrances may result.

Prior Year Status: The above condition is reiterative of conditions identified in the prior year audit of Pohnpei State Government.

Recommendation: We recommend that management strengthen internal controls by periodically assessing the ongoing relevance of outstanding encumbrances.

Finding Number 2006-02 – Travel Advance

Criteria: Pohnpei State Government should ensure that travel advances are liquidated within ten working days of trip completion.

Condition: Numerous travel advances were outstanding, of which \$171,780 were over a year old. These travel advances were subsequently written off in the year ended September 30, 2006.

Cause: The cause of this condition is that documentation requirements and collection efforts were historically not enforced.

Effect: The effect of this condition is a potential overstatement of travel advances.

Prior Year Status: The above condition is reiterative of conditions identified in the prior year audit of Pohnpei State Government.

Recommendation: The State should ensure that travel vouchers are filed in a timely manner. If filing is not timely, collection efforts should commence.

Honorable Johnny P. David
Governor, State of Pohnpei
Federated States of Micronesia:
June 15, 2007

Page 2

Finding Number 2006-03 – Untimely Deposit

Criteria: Cash collections should be deposited the following business day.

Condition: Tests of cash collections noted forty daily collections that were not deposited in a timely manner.

Cause: The cause of this condition is that timely deposits did not occur.

Effect: There is a risk that cash could be diverted to other uses.

Recommendation: Policies relevant to the timely deposit of collections should be followed and compliance with the criteria should be monitored.

Finding Number 2006-04 - Payroll

Criteria: Employee hourly pay rates per the payroll report should agree with personnel action forms.

Condition: Employee pay rates per the personnel action form did not agree with the payroll register.

<u>CK #</u>	<u>PPE</u>	<u>Pay rate per PAF</u>	<u>Pay rate per Payroll Register</u>
860287	10/25/05	143/60=2.39 hr	143/80=1.79 hr

Per inquiry with management, the difference is due to the employee's biweekly hours being inconsistent as the personnel action form indicates 60 hours biweekly and the payroll register indicates 80 hours biweekly to be paid at the same biweekly rate. Therefore, it appears that the employee worked 20 hours with no additional compensation.

Cause: Balances per the personnel action form did not correspond with the rates utilized in the payroll register.

Effect: The effect of this condition is that pay rates may be inappropriately paid.

Recommendation: We recommend that the State strengthen internal controls to ensure that pay rates are documented and paid.

Finding Number 2006-05 - Procurement

Criteria: Procurement should provide full and open competition among vendors and allowable exceptions should be approved and be documented in procurement files.

Condition: For the following non-federal related expenditures, there was insufficient documentation to support competitive procurement requirements.

Finding Number 2006-05 – Procurement, Continued

Condition, Continued:

<u>Item</u>	<u>Org</u>	<u>Acct</u>	<u>Descr_2</u>	<u>Descr_3</u>	<u>Date</u>	<u>Amt</u>	<u>Ck</u>
1	1010	8110	T60157	839771	03/13/06	\$ 3,476	192054
2	1015	8110	T60155	839769	03/13/06	3,476	192054
3	1049	8110	-	843351	06/05/06	24,552	194462
4	1010	8110	T60156	839770	03/13/06	3,476	192054
5	1010	8320	«10 spaces»	836433	12/13/05	7,043	190013
6	1871	8408	C6000201	834065	10/14/05	9,000	188385
7	5101	8212	L6179101	842136	05/09/06	7,371	193697
8	5777	8303	L6148501	841231	04/20/06	3,966	193197
9	5777	8303	D6005001	844556	06/29/06	4,000	195381
10	5771	8314	P10068	837216	01/10/06	17,717	190495
11	5310	8408	C6065301	848035	08/29/06	1,200	197688
12	5781	8303	L6025601 V60093,	835945	12/01/05	2,639	189648
13	5801	8303	P60028	0	02/24/06	5,000	190475
14	4292	8310	«10 spaces»	844229	06/20/06	8,029	195135
15	4256	8405	C4007702	839041	02/28/06	4,454	191648
16	4256	8405	C4007702	835274	11/15/05	5,374	189162
17	5310	8408	C6065301	849585	09/26/06	1,200	198732
18	5761	8210	P6003101	842581	05/17/06	7,990	194028

Cause: There appears to be a lack of controls over ensuring that competition remains open among vendors.

Effect: No effect on the financial statements results from this condition. However, noncompliance with State procurement rules may result from the condition.

Recommendation: The State should strengthen internal controls over its procurement regulations to maximize competition while maintaining the best interests of the State. If exceptions are allowed by procurement regulations, they should be reviewed and approved and be recorded in procurement files.

Finding Number 2006-06 – Budgetary Expenditures

Criteria: Expenditures should not exceed approved budget levels.

Condition: The following fund exceeded the approved budget:

<u>Org</u>	<u>Org Description</u>	<u>Expense</u>	<u>Budget</u>	<u>Over budget</u>
1871	Health Care Plan Board	\$61,886	\$46,570	\$15,316

Cause: There appears to be a weakness in internal controls over ensuring that expenditures do not exceed approved budgetary levels.

Effect: Unapproved expenditures may result from this condition.

Finding Number 2006-06 – Budgetary Expenditures, Continued

Prior Year Status: The above condition is reiterative of conditions identified in the prior year audit of Pohnpei State Government.

Recommendation: We recommend that compliance with the criteria occur.

Finding Number 2006-07 - Travel

Criteria: Travel costs should be supported by boarding passes and receipts should be present that substantiate miscellaneous travel expenses.

Condition: The following travel expenditures were not supported by boarding passes or are supported by partial boarding passes.

<u>Item</u>	<u>Org</u>	<u>TA #</u>	<u>APV #</u>	<u>Amount</u>	<u>Ck No.</u>
1	6770	T60059	836269	\$2,223.00	10896
2	6770	T60299	V60377	1,763.00	V60377
3	1010	T60157	839771	3475.81	192054
4	1015	T60155	839769	3475.81	192054
5	1010	T60156	839770	3475.81	192054

Cause: The cause of this condition is that boarding passes were not obtained.

Effect: The effect of this condition is inadequate documentation to substantiate that travel occurred.

Prior Year Status: The above condition is reiterative of conditions identified in the prior year audit of Pohnpei State Government.

Recommendation: The State should ensure that boarding passes or other acceptable documentation substantiating that travel occurred is on file.

Finding Number 2006-08 – Unsupported Expenditures

Criteria: Expenditures should be supported by and agree with underlying invoices, contracts or other valid documentation.

Condition: The following expenditures were not supported or did not agree with underlying invoices.

<u>Item</u>	<u>Org</u>	<u>Acct</u>	<u>Des 2</u>	<u>Des 3</u>	<u>Date</u>	<u>Amount</u>	<u>Ck</u>
1	5771	8314	P10068	837216	01/10/06	\$17,717	190495
2	2752	8307		845143	07/13/06	3,500	195813
3	5771	8314	L6034803	836280	12/07/05	2,856	189858
4	5771	8314	L6034811	836280	12/07/05	3,400	189858
5	4227	8405	C30398	845183	07/13/06	5,025	195819
6	4255	8405	C20463	844232	06/20/06	5,683	195120

Cause: There appears to be an internal weakness in ensuring that expenditures are properly supported.

Finding Number 2006-08 – Unsupported Expenditures, Continued

Effect: Invalid disbursements may result from this condition.

Recommendation: We recommend that all expenditures be supported by an invoice, contract or other appropriate documentation.

Finding Number 2006-09 - Compliance: Eligibility

Criteria: Scholarships should be awarded in accordance with the terms and conditions as stipulated on the agreement.

The Student must attend the school as a full time student and remain in good standing for the entire school term.

Condition:

1. The following student did not appear to be in good standing or maintain a full time academic status:

<u>Org</u>	<u>Acct</u>	<u>APV#</u>	<u>Date</u>	<u>Semester</u>	<u>CK. No.</u>	<u>Amount</u>
2915	8454	835402	11/17/2005	Fall 2005	189212	\$ 3,528

2. Scholarship check number 189312 was only made payable to the student.

Cause: There appears to be lack of control in enforcing scholarship regulation standards.

Effect: Fraud and abuse may be present.

Recommendation: We recommend that the State strengthen its internal control in enforcing scholarship regulation standards.

In addition, a maximum awarded number of years should be established (i.e. 2 years for vocational, 4 years for bachelor, and 6 years for master's degree). Furthermore, a student's failure to maintain a full time status and a cumulative grade point average of 2.5 should result in probation, lost of scholarship, decline of future scholarship awards and/or repayment of the award.

Finding Number 2006-10 - Expenditures

Criteria:

1. Disbursements should be monitored.
2. Expenditures should be recorded in the proper period.

Condition:

1. For one of six (17%) purchase order advances tested, the transaction represented an overpayment of \$22,724, which has been subsequently collected.

Finding Number 2006-10 – Expenditures, Continued

Condition, Continued:

2. The following invoices were for services or goods rendered or received in fiscal year 2005 that were recorded in fiscal year 2006.

<u>Org</u>	<u>Acct</u>	<u>Des</u>	<u>Desc2</u>	<u>Des3</u>	<u>Amount</u>	<u>Process Date</u>	<u>Trans Date</u>
3262	8405	COM-FSM	C6014302	839350	\$ 4,374	3/8/06	3/7/06
3266	8405	COM-FSM	C6014301	839350	7,372	3/8/06	3/7/06
3761	8306	FSM Telecommunications Corp.	L6005401	834182	<u>3,870</u>	10/26/05	10/20/05
					<u>\$ 15,616</u>		

Cause: There appears to be an internal control weakness in ensuring that expenditures are properly monitored and recorded.

Effect: Overpayments and expenses recorded in the wrong period may result from this condition.

Recommendation: We recommend that Pohnpei State strengthen internal controls to ensure that disbursements are properly monitored to prevent overpayments, and to ensure that expenses are recorded in the correct period.

Finding Number 2006-11 – Continuing Appropriations

Criteria: Continuing appropriations should not exceed the approved budget.

Condition: The following continuing appropriations were noted to have exceeded the approved budget for the account description below:

<u>Org</u>	<u>Acct Des</u>	<u>Budget</u>	<u>Expenditures</u>	<u>Encumbrance</u>	<u>Total</u>	<u>Over budget</u>
6827	Matching for re-const., repai/impro. Sapwufik airstrip	\$18,115	\$21,703	\$ 3,297	\$25,000	\$6,885
6836	Construction of Pehleng Retaining Wall	53,190	810	53,190	54,000	810

Cause: There appears to be a weakness in internal controls over ensuring that continuing appropriations do not exceed approved budgetary levels.

Effect: Unapproved expenditures and deficits may result from this condition.

Recommendation: We recommend that compliance with the criteria occur.

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We have also communicated certain matters noted during our audit of financial statements of the State of Pohnpei (the State) for the year ended September 30, 2006, which we considered to be reportable conditions in our report dated June 15, 2007.

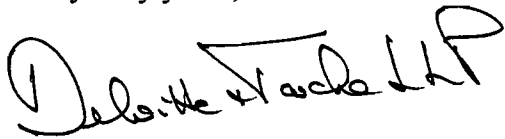
Honorable Johnny P. David
Governor, State of Pohnpei
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June 15, 2007

Page 7

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,

A handwritten signature in black ink, appearing to read "Deloitte & Touche LLP". The signature is stylized and cursive, with the letters "D" and "T" being particularly prominent.