

August 21, 2007

Board of Directors
Pohnpei State Housing Authority:

In planning and performing our audit of the special-purpose financial statements of the Pohnpei State Housing Authority (the Authority) for the year ended September 30, 2006, on which we have issued our report dated August 21, 2007, we developed the following recommendations concerning matters related to the Authority's internal control. Our recommendations are summarized below:

Fixed Assets Acquisition

Condition: There are no procedures in place to ensure that the Authority has obtained the best price for fixed asset acquisitions.

Effect: The Authority is not efficient in utilizing its funds. Fixed assets may have been bought at prices above market value.

Recommendation: We recommend that the Authority follow State of Pohnpei procurement procedures.

Paid Off Loan Documentation

Criteria: The Authority should ensure the propriety of loan securities that are returned to borrowers.

Condition: For all transactions tested, the Authority was not able to document the return of loan securities for loan accounts that were already paid-off.

Cause: There appears to be a lack of internal control over documentation of loan transactions.

Effect: The condition has no known material effect on the financial statements. However, the Authority is at risk of complaints due to misplaced or lost loan securities.

Recommendation: We recommend that the loan division ensure adequate documentation of all loan transactions.

Loan Documentation

Criteria: The Authority should maintain all required documentation in loan files to ensure that necessary collateral securities exist.

Condition: For 3 of 9 (33%) transactions tested, the Authority was not able to maintain all necessary loan documentation.

Cause: There appears to be a lack of internal control over recordkeeping.

Loan Documentation, Continued

Effect: The condition has no known material effect on the financial statements. However, the Authority is at a greater risk of non-payment due to default.

Recommendation: We recommend that the loan division ensure the adequacy of its documentation over loan transactions.

General Ledger

Criteria:

Condition: No general ledger is maintained by the Authority. A number of sub-ledgers are kept recording cash disbursements and receipts but no general ledger is maintained and no periodic reconciliations to the individual sub-ledgers occur.

Cause: The cause of the condition is the lack of a general ledger.

Effect: The year-end reconciliation process is untimely and errors can occur when reconciling a large number of transactions at one time.

Prior Year Status: This finding was noted in the 2005 audit.

Recommendation: A general ledger should be implemented.

Segregation of Duties

Criteria:

Condition: Cash receipts can be paid in person at the Authority to one of the two accountants. This cash is reconciled at the end of the day by the same accountants.

Cause: The cause of the condition is inadequate segregation of duties.

Effect: It would be possible for fraudulent activity to occur within this process.

Prior Year Status: This finding was noted in the 2005 audit.

Recommendation: We recommend consideration of additional management involvement in either reconciling cash at the end of the day or in reviewing the entire process ensuring that all official receipt numbers are in numerical order and that all cash is accounted for.

Subsidiary Ledgers

Criteria: Subsidiary ledgers should be recorded monthly.

Condition: All transactions are kept in manual sub-ledgers and are periodically transferred into different sub-ledgers. It was noted during the audit that a number of casting and transposition errors occurred during this process.

Cause: The cause of the condition may be to the lack of monthly reconciliations to a general ledger control account.

Effect: Manual calculation of such a large volume of transactions may be untimely and errors are often likely to occur.

Prior Year Status: This finding was noted in the 2005 audit.

Recommendation: If accounting software cannot be implemented, the Authority may consider the use of EXCEL program. By entering the data into electronic sub-ledgers, casting errors would be negated and by transferring data electronically into individual personal folders, transposition errors would also be reduced.

Loan Receivables

Criteria: Recorded loan amounts should agree with underlying loan agreements.

Condition: For 14 of 93 (15%) transactions tested, the recorded loan amount did not agree with the underlying loan agreement.

Cause: There appears to be an inadequate review and reconciliation of recorded loan amounts with the underlying loan agreement.

Effect: Loan receivable balances as of fiscal year end could be misstated.

Recommendation: We recommend that the Authority ensure that the recorded loan amount agrees with underlying loan agreements.

Loan Receivables

Criteria: All collections during the day should be deposited into the Authority's depository bank account on the day received or immediately on the following working.

Condition: For 27 of 93 (29%) transactions tested, cash collection were deposited after two or more working days.

Cause: Internal controls over timely deposit of cash collected appears to be weak.

Effect: The condition has no known material effect on financial statements. However, there is a risk that cash collection could be misappropriated. Also, the Authority is non-compliant with its policy.

Recommendation: We recommend that the Authority strengthen its internal controls over the timely deposit of cash collections.

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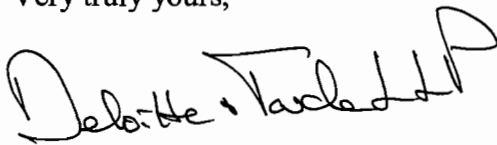
We have also communicated matters noted during our audit of the financial statements of the Authority for the year ended September 30, 2006, which we considered to be reportable conditions in our report dated August 21, 2007.

This report is intended solely for the information and use of the Authority's Board of Directors and management.

We will be pleased to discuss the above comment with you and, if desired, to assist you in implementing the suggestion.

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,

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.