

June 10, 2008

Honorable Wesley Simina
Governor, State of Chuuk
Federated States of Micronesia:

In planning and performing our audit of the statement of net assets of the governmental activities, and the governmental funds balance sheet for each major fund and the aggregate remaining fund information of the State of Chuuk (the State) as of September 30, 2007 on which we have issued our report dated June 10, 2008, and which was qualified with respect to: 1) a liability for land leases and other claims payable in the governmental activities and the General Fund; 2) the inadequacy of records concerning capital assets for governmental activities; 3) the inadequacy of accounting records for land acquisitions payable recorded for the governmental activities and the General Fund, and stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements of the aggregate discretely presented component units, the statement of activities for the governmental activities, the governmental funds statement of revenues, expenditures, and changes in fund balances (deficits), and the reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities for the year ended September 30, 2007, we developed the following recommendations concerning certain matters related to the State's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

Finding No. 1 – Expenditures – Supporting Documents

Comment: For 2 (or 4%) of 54 non-payroll transactions tested, no vendor's invoice, contract, receiving report and other underlying supporting documentation were provided.

| <u>FundOrg</u> | <u>APV</u> | <u>Amount</u> |
|----------------|------------|---------------|
| 101960 | 760179501 | \$ 44 |
| 101804 | 700417401 | 1,465 |
| | Total | 1,509 |

Recommendation: The State should strengthen its internal controls to ensure that expenditures are supported by vendor's invoices, contracts, receiving reports and other underlying supporting documentation validating the expenditure. Furthermore, the State should strengthen internal controls over retention of underlying supporting documents.

Honorable Wesley Simina
Governor, State of Chuuk
Federated States of Micronesia
June 10, 2008

Page 2

Finding No. 2 - Encumbrances

Comment: For 1 (or 3%) of 33 transactions tested for Sector Grant Encumbrances, we noted that a travel voucher for the travel completed in November 2006 was not liquidated as of May 2008.

Recommendation: The State should strengthen internal controls to ensure encumbrance balances per the general ledger are reconciled to the supporting sub-ledgers. Furthermore, reconciliation of the sub-ledger should be performed to assess encumbrance validity and the detailed encumbrance listings should be supported by purchase orders, contracts and agreements that should be available for examination.

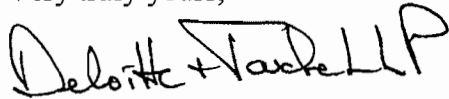
* * * * *

We have also communicated certain matters noted during our audit of the financial statements of the State for the year ended September 30, 2007, which we considered to be significant deficiencies in our report dated June 10, 2008.

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,

Handwritten signature of Deloitte + Touche LLP in black ink.