

June 16, 2008

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, 2007, on which we have issued our report dated June 16, 2008, we developed the following recommendations concerning matters related to the Authority's internal control. Our recommendations are summarized below:

Cash Management

Condition: Cash was collected on March 29, 2007 and was banked on November 30, 2007.

Effect: A potential misstatement of cash and a fraud opportunity results from this condition.

Recommendation: We recommend the daily deposit of cash receipts.

Employee Advances

Condition: The Authority has some \$214,000 outstanding as advances as of September 30, 2007 and has provided a reserve of \$213,503. The advances arose in prior years. The amounts have not been timely collected. While the Authority appears to have discontinued the practice of making such advances, the Authority does not appear to have exercised all legal capabilities of attempting to obtain repayments of the advances. Therefore, the allowance provided of \$213,503 for these receivables is required.

Effect: The effect of this condition is that the Authority has limited funds for lending purposes.

Recommendation: The Authority should take all legal means to ensure recovery of these advances.

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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,

