

June 30, 2008

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, 2007, which collectively comprise the State's basic financial statements (on which we have issued our report dated June 30, 2008, and which report was modified to include a reference to other auditors and due to our inability to determine the carrying value of a donated fixed asset), 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 2007-01 - Documentation

Comment: The State is not always able to locate accounts payable vouchers in support of payments made. This condition hampers the State's ability to document the validity of its payments.

Recommendation: Prior to being bound for final filing, the accounts payable vouchers should be reviewed by a higher level of management to ensure their completeness.

Finding Number 2007-02 – Travel Advances

Comment: The State has significant travel advances outstanding from prior years. The advances have been reserved for so the net amount outstanding is not material to the financial statements. However, substantial noncompliance with State policy occurs as requisite travel vouchers are not filed timely after the completion of travel.

Recommendation: The State should consider enforcing automatic payroll deductions in cases where travel vouchers are not timely filed.

Finding Number 2007-03 – Appropriation to Component Unit

Comment: The State authorized appropriations to a component unit to be a charge on an external grant. However, the ultimate charge was borne by the general fund and the grant.

Recommendation: The State should determine its recourse in this matter and determine if the grant can be charged for the payment absorbed by the General Fund.

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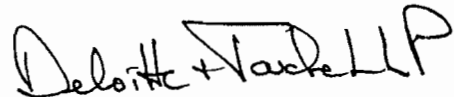
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We have also communicated certain matters noted during our audit of financial statements of the State of Yap (the State) for the year ended September 30, 2007, which we considered to be significant deficiencies in our report dated June 30, 2008.

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