

December 27, 2007

## CONFIDENTIAL

Board of Directors  
Federated States of Micronesia Telecommunications Corporation

Gentlemen:

In planning and performing our audit of the financial statements of the Federated States of Micronesia Telecommunications Corporation (the Corporation) for the year ended September 30, 2007, on which we have issued our report dated December 27, 2007, we developed the following recommendations concerning matters related to its internal control. Our recommendations are summarized below:

### **Recommendation No. 1 – Passwords**

Comment: Management should employ a consistent network password policy to ensure all passwords are changed frequently.

Recommendation: We recommend that the Corporation change the password policy to require users to change passwords, at a minimum, every six months.

### **Recommendation No. 2 – Time Allocation**

Comment: The Corporation had changed their payroll timesheets from manual to electronic. Job codes are no longer utilized and instead a percentage was placed in at the initial set up of the electronic timekeeper.

Recommendation: Management should require employees to indicate the actual time spent for each job code at the end of each pay period or at least change the percentage allocation on a quarterly basis.

### **Recommendation No. 3 – Signature Stamps**

Comment: The signature stamps utilized for disbursements are in the possession of separate employees. However, once a disbursement is prepared and ready for signature, one employee obtains the signature stamp from the other employee.

Recommendation: The signature stamp should not leave the possession of the assigned party.

### **Recommendation No. 4 – Monthly Reconciliation**

Comment: The deferred prepaid card liability is not reconciled prior to month-end closing. A detailed listing is not generated until the year-end closing.

Recommendation: Although management reviews the monthly posting to the general ledger, management should ensure that all subsidiary ledgers are reconciled to the general ledger prior to month-end closing.

**Recommendation No. 5 – Reconciliation between information in the Switch and Billing System**

Criteria: A reconciliation between the information in the Switch and Avabill Billing system was not completed in the current year.

Recommendation: Although management reviews and investigates the error call listing on a weekly basis, which indicates any usage fees from the Switch and not in the Avabill Billing system, management should consider reconciling the two systems.

**Recommendation No. 6 – Travel Advances**

Criteria: Travel advances for three employees have not been cleared and have aged over 120 days. Two of the employees did not travel and are now deducted from their payroll.

Recommendation: Advances for travel should be reimbursed immediately if the travel was cancelled. Management should consider assessing interest if amounts are not returned within a reasonable time period.

**Recommendation No. 7 – Credit Card Usage**

Criteria: An accounts receivable balance of \$2,666 represents personal purchases from the Corporation's credit card made by employees.

Recommendation: Only corporate purchases should be charged to the corporate credit cards.

\* \* \* \* \*

This report is intended solely for the information and use of the Board of Directors and management of Federated States of Micronesia Telecommunications Corporation.

We wish to express our appreciation for the cooperation of the staff and management of the Corporation during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

