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June 4, 2010

The Board of Trustees
Chuuk State Health Care Plan

Dear Members of the Board of Trustees:

We have performed an audit of the financial statements of the Chuuk State Health Care Plan (the Plan) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated June 4, 2010.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Plan is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated August 17, 2009. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of the Plan's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- To report on the Plan's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2009 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Trustees are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Trustees of their responsibilities.

We considered the Plan's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Plan's 2009 financial statements include management's estimate of the allowance for premium losses, which is determined based on aging and evaluations of collectibility of premiums receivables and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2009, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we have not identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Plan's financial reporting process.

In addition, we have attached to this letter, as Appendix I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The Plan's significant accounting policies are set forth in Note 2 to the Plan's 2009 financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Plan:

- GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which establishes standards for the measurement, recognition, and display of other post employments benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers.

- GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the financial statements of the Plan.

For the year ended September 30, 2010, the following pronouncements will be adopted by the Plan:

- In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.

- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements.

- In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.

Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Plan.

For the year ended September 30, 2011, the following pronouncements will be adopted by the Plan:

- In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

Management does not believe that the implementation of these statements will have a material effect on the financial statements of the Plan.

OTHER INFORMATION IN THE ANNUAL REPORTS

The 2009 audited financial statements were not included in documents containing other information such as the Plan's Annual Report to Shareholders.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Plan's 2009 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2009.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Plan's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Plan is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Appendix II, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Plan's management and staff and had unrestricted access to the Plan's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 4, 2010, wherein matters involving the Plan's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have also identified, and included in Appendix III, certain other matters involving the Plan's internal control over financial reporting and operations as of September 30, 2009 that we wish to bring to your attention.

The definition of a control deficiency is also set forth in Appendix III.

* * * * * * * *

This report is intended solely for the information and use of the Board of Trustees, 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 wish to thank the staff and management of the Plan for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

Chuuk State Health Care Plan
September 30, 2009
Appendix A - Summary of Current Year Passed Adjustments

	Assets	Liabilities	Retained Earnings Beg of Year	Other Equity A/Cs	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Current Year Known Misstatements					
Paje <1> - To correct depreciation expense for the year					
Depreciation					3,856
Depreciation Accumulated	(3,281)				
Office equipment	(575)				
Total Known Misstatements	**(3,856)**	**0**	**0**	**0**	**3,856**
None identified.					
Total Likely Misstatements	-	-	-	-	-

6/23/10

KARSOM ENLET, EXECUTIIVE DIRECTOR CSHCP

Chuuk State Health Care Plan
September 30, 2009
Appendix B - Summary of Prior Year Passed Adjustments Identified in Current Year

	Assets	Liabilities	Retained	Other	Income
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Prior Year Known Misstatements Identified in Current Year					
None identified					
Total Known Misstatements	0	0	0	0	0

6/23/10

KARSON ENLET, EXECUTIVE DIRECTOR CSHCP

CHUUK STATE HEALTH CARE PLAN
P.O. BOX 1679
WENO, CHUUK STATE, FSM 96942

PHONE NO. (691) 330-5474
FAX NO. (691) 330-5473

June 4, 2010

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96913

We are providing this letter in connection with your audits of the statements of net assets of the Chuuk State Health Care Plan (the Plan) as of September 30, 2009 and 2008 (a component unit of the State of Chuuk) and the related statements of revenues, expenses and changes in net assets and cash flows, for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial positions, and results of operations and/or changes in fund balances and/or cash flows of the Plan in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The fair presentation in the financial statements of net assets, revenues, expenses and changes in net assets cash flows in conformity with GAAP.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, accompanying the basic financial statements that are presented for the purpose of additional analysis for the basic financial statements.

c. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of: providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations.

d. Maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

e. The design and implementation of programs and controls to prevent and detect fraud.

f. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The Plan's financial statements referred to above are fairly presented in conformity with GAAP, except for the matter set forth in your Independent Auditors' Report. In addition:

    a. The financial statements properly classify all activities of the Plan.

    b. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

    c. Deposits are properly classified in the category of custodial credit risk.

    d. Capital assets are properly capitalized, reported, and depreciated

    e. Required supplementary information is measured and presented within prescribed guidelines.

2. The Plan has made available to you all:

    a. Financial records and related data for all financial transactions of the Plan.

    b. Minutes of meetings of Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared. The only minutes during the year and to the date of this letter are:

        - January 7, 2009
        - March 24, 2009
        - April 17, 2009
        - May 22, 2009
        - June 12, 2009
        - July 31, 2009
        - September 18, 2009
        - September 25, 2009

3. There has been no:

a. Action taken by the Plan's management that contravenes the provisions of federal laws and FSM laws and regulations or of contracts and grants applicable to the Plan.

b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of current year uncorrected misstatements have been attached as Appendix A.

5. The Plan has made available to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Plan and do not believe that the financial statements are materially misstated as a result of fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Plan involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Plan received in communications from employees, former employees, analysts, regulators, or others.

8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies)*

9 We are responsible for compliance with local, state and federal laws, rules and regulations, and provisions of grants and contracts relating to the Plan's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Plan is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

10. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Plan's ability to initiate, record, process, and report financial information.

11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

12. Based on our discussions during the course of the audit, management has made available to you the results of our assessment of the risk of whether the financial statements may be materially misstated as a result of fraud.

Except where otherwise stated below, matters less than $5,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

13. Except as listed in Appendices A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

14. We understand that because of a data loss resulting from an information technology support failure, general and subsidiary ledgers supporting account balances as of September 30, 2009 were not made available to enable you to perform tests of journal entries.

15. The Plan has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

16. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

    b. Guarantees, whether written or oral, under which the Plan is contingently liable.

    c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

    d. All impaired premiums of and other loans receivable.

17. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

18. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

19. There are no:

a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by disclosed by FASB ASC 450, *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

20. The Plan has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

21. The Plan has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.

22. No events have occurred after September 30, 2009 but before June 4, 2010, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.

23. There are no control deficiencies in the design or operation of internal control over financial reporting that could adversely affect the Plan's ability to initiate, record, process, and report financial information.

24. We are aware of our requirement to disclose to you any change in the Plan's internal control over financial reporting that occurred during the Plan's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Plan's internal control over financial reporting and we advise you that no such changes have occurred that are reported to you.

25. No Corporation or agency of the Federal Government or the Governments of the Federated States of Micronesia has reported a material instance of noncompliance to us.

26. With regard to the fair value measurements and disclosures of certain assets, we believe that:

a. The measurement methods, including the related assumptions, used in determining fair value were appropriate and were consistently applied.

b. The completeness and adequacy of the disclosures related to fair values are in conformity with accounting principles generally accepted in the United States of America.

c. No events have occurred subsequent to September 30, 2009 that requires adjustment to the fair value measurements and disclosures included in the financial statements.

27. During fiscal year 2009, the Plan implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the financial statements.

28. For the year ending September 30, 2010, the following pronouncements will be adopted by the Plan:

    - In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

    - In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

- In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

29. For the year ending September 30, 2010, the following pronouncements will be adopted by the Plan:

    - In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

30. Receivables recorded in the financial statements represent valid claims against plan holders for premiums or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

31. The Plan is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, and accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balance(s).

32. As at September 30, 2009, the Plan has outstanding receivables from Chuuk State as follows: (a) Premium receivables of $37,284; and (b) Advances to a component unit (payable by the State) of $50,000. The Plan believes that there exists a high probability of collection based on advice received from Chuuk State management and, hence, no allowance is deemed necessary at this time. However, premiums receivable from a component unit of $31,407 have been fully provided with an allowance and due to the uncertainty when the $50,000 may be repaid by Chuuk State, we have classified this balance as long-term and understand that your opinion on the financial statements has highlighted this matter.

33. There were no items of physical property contained in the property accounts of the Plan that were either (a) abandoned or (b) out of service.

34. We represent to you that, subsequent to September 30, 2009 ...

that no material losses have been sustained as a result of this practice during the past three years.

APPENDIX II, CONTINUED

6/23/10

Karsom Enlet
Executive Director

Date

SECTION I —OTHER MATTERS

We have identified the following observations concerning other matters related to operations and best practices, involving internal control over financial reporting that we wish to bring to your attention:

1. Transactions Not Supported by Documents

Observation: Various supporting invoices and hospital billings were not available. Additionally, documentation in support of the active member status of various referred/treated patients could not be located and documentation in support of related referral committee determination could be not located or were not on file.

Additionally, a written policy was not located to support a represented policy of limiting the amount paid to local clinics.

Recommendation: Management should ensure that all payment transactions are supported by invoices or billings and that the validity of these expenses is verified. Additionally, policies should be reduced to writing and should be annotated in the minutes as to Board of Director approval.

Management Response: We generally agree with the finding and recommendation. In particular, documentation supporting payments to local clinics and the Hospital was not always available for review. Although it is the policy of the CSHCP to only refer active members, not all decisions made with respect to the Hospital referral committee were documented. New procedures have been implemented in 2010 to ensure that all payment transactions are supported by invoices and independently verified with proper written approvals. Board of Director approval will be sought and annotated where appropriate. We note that no improper expenditures were noted in the FY-09 audit and will strengthen documentation to reflect such in the future.

2. Control Weaknesses in Processing and Recording Travel Expenses

Observation: We commend management for making various improvements in the area of travel. However, we recommend that management continue to challenge its travel policies to include the following considerations.

a. Two travel final claims could not be located. Travel claims should always be filed and should document the amount of the recorded travel expense.

b. In the event that a business related stop-over occurs, a detailed itinerary of business conducted during the stop-over should be on file to support related per diem claimed.

c. If travel occurs to negotiate and to establish a provider agreement, and if travel occurs more than once in connection with such, a detailed trip report should be on file and be presented to the Board to document the business purpose of the travel and the status of the negotiations.

Recommendation: The Plan should continue to refine its controls over the authorization of travel expenses.

Management Response: The report notes the improvements in the area of travel, and the reduction and tight control of travel expenses was a hallmark of fiscal year 2009. Management will continue to refine travel procedures so that only authorized travel is undertaken at the lowest costs available to the Plan. Moreover, all payments will be reviewed to ensure that documentation supports these controls.

3. Gasoline expenses

Observation: The Plan incurs gasoline expense of $300 per month. The amount is paid to a gas station and is then to be used for related business purposes. However, there is no documentation on file demonstrating the business purpose of the use of this fuel, trips and mileage undertaken, and the identity of license plates of vehicles receiving the fuel.

Recommendation: The Plan should challenge the manner in which gasoline expense is recorded. If a $300 check is disbursed, it should be recorded as a deposit until appropriate evidence of business use is documented, approved, and on file.

Management Response: The finding is not accurate; there is documentation on file to support all gasoline purchases. It is our understanding, however, that this was not provided to the auditors during their fieldwork. The Plan only has two vehicles and gasoline must be approved by the Executive Director and Chief Accountant prior to purchase. Invoices from the gas station are subsequently attached to this authorization. Although the gasoline vendor does not indicate the license plate number on the invoice, there is no problem matching such up to the authorization form because of the small number of transactions. Gasoline advances are now limited to $200 per month. Management believes these expenditures are adequately controlled.

SECTION II — DEFINITIONS

The definition of a control deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.