

June 13, 2012

Mr. Karsom Enlet
Executive Director
Chuuk State Health Care Plan

Dear Mr. Enlet:

In planning and performing our audit of the financial statements of the Chuuk State Health Care Plan (the Plan), a component unit of the State of Chuuk), as of and for the year ended September 30, 2011 (on which we have issued our report dated June 13, 2012), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the Plan's internal control over financial reporting and other matters as of September 30, 2011 that we wish to bring to your attention.

We have also issued a separate report to the Board of Trustees, also dated June 13, 2012, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

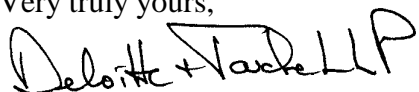
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization, and the Office of the FSM National Public Auditor and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

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,



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the Plan's internal control over financial reporting as of September 30, 2011 that we wish to bring to your attention:

1. Enrollee Master File

Comment: The Plan does not maintain a complete master file of enrollees.

Recommendation: We recommend that the Plan maintain an enrollee master file and update such on a regular basis, which allows the Plan to monitor premium payments on an individual basis and assess the collectability of overdue balances.

2. Fixed Asset Capitalization Policy

Comment: The Plan has adopted a fixed asset capitalization policy of \$50,000 for property and equipment; however, such policy is not reflected in the fixed asset register.

Recommendation: We recommend that the Plan consider lowering the capitalization threshold.

3. Audit of Health Care Providers

Comment: The Plan does not possess authority to audit health care providers; therefore, the Plan has not conducted such audit since the inception of the Plan in September 2003.

Recommendation: We recommend that the Plan request the Chuuk State Legislature to change the enabling legislation to allow the Plan to have audit authority.

4. IBNR Based Accounting

Comment: While the Plan tracks its referral expenses on an individual member basis, the Plan does not make an initial estimate of the projected referral cost.

Recommendation: We recommend that the Plan consider a more IBNR based accounting so that the Plan will be able to start its IBNR projection that would allow it to close the books at an earlier date.

SECTION II – OTHER MATTERS

We noted no matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention.

SECTION III – DEFINITION

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

A *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 would not be met. A deficiency in *operation* exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Plan's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.