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June 26, 2013

Mr. Jared C. Morris
Chief Executive Officer
Federated States of Micronesia Petroleum Corporation
P.O. Box 1762
Kolonia, Pohnpei FM 96941

Dear Mr. Morris:

In planning and performing our audit of the financial statements of the Federated States of Micronesia Petroleum Corporation (the Company), a component unit of the FSM National Government, as of December 31, 2012, (on which we have issued our report dated June 26, 2013), 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 Company'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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company'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 that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Attachment I, deficiencies related to the Company's internal control over financial reporting and other matters as of December 31, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 26, 2013, on our consideration of the Company'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 Attachment 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 Attachment II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, 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 Company for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Tatchell LLP

SECTION I –DEFICIENCIES

We identified, and have included below, deficiencies involving the Company's internal control over financial reporting as of December 31, 2012 that we wish to bring to your attention:

(1) Fuel Inventory

Comment

The Company has approximately 24,000 gallons of fuel aggregating \$94,000 as of December 31, 2012 which was not recorded in its preliminary financial statements. The Accounting Department was not informed of the existence of this inventory. The root causes of this matter are: (1) reliance of the Accounting Department on information input in PetroX, the Company's application software, and (2) lack of communication between Tank Farm Personnel and the Accounting Department. An adjustment was proposed to record this fuel.

Recommendation

We recommend that management revisit the procedure of reporting month-end and year-end inventory quantities by Tank Farm Personnel to the Accounting Department. Communication among departments should be strengthened.

(2) Lubricant Inventory

Comment

Based on scrutiny of lubricant sales in Pohnpei for the month of January 2013, we noted that only 92 of 105,585 units as of December 31, 2012 were sold. It appears that turnover of lubricant inventory is not in line with the level of inventory on hand as of year-end. The Company may incurring costs associated with this account that do not have to be incurred. The Company subsequently submitted an adjustment to record a \$50,587 allowance for slow-moving inventory.

Recommendation

We recommend that management analyze salability and recoverability of lubricant inventory and periodically record required allowances. We recommend that management revisit their inventory stocking strategy for lubricant inventory.

(3) Construction In-Progress

Comment

Progress billings from vendors of Yap Seawall Project are reviewed by the project engineer but not by the accounting department.

Recommendation

To strengthen control on costs, we recommend involvement of accounting department in review of progress billings from vendors.

SECTION III – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 and correct 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 Company'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.