

June 26, 2014

The Board of Directors  
Pohnpei State Housing Authority

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Pohnpei State Housing Authority (the Authority) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 26, 2014.

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 Authority is responsible.

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (“generally accepted government auditing standards”), have been described in our engagement letter dated September 13, 2013, a copy of which has been provided to you. As described in that letter, the objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on the fairness of the presentation of the Authority’s basic financial statements, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013, in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects; and
- Report on the Authority’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grants and other matters for the year ended September 30, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in generally accepted government auditing standards.

Our responsibilities under generally accepted auditing standards and generally accepted government auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors 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 Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

## **MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Authority's 2013 financial statements include management's estimate of allowance for doubtful accounts, which is determined based on past collection experience and aging of the accounts; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective fixed assets. During the year ended September 30, 2013, 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**

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on Authority's financial reporting process. Such proposed adjustments listed in Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2013 financial statements.

In addition, included as Appendix B to Attachment I is 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 Authority's significant accounting policies are set forth in note 1 to the Authority's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Authority:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

The implementation of these statements did not have a material effect on the Authority's 2013 financial statements.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Authority's 2013 financial statements.

## **OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF 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 2013.

## **OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as the Authority's 2013 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in the Authority's 2013 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

## **SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence, 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 Authority's management and staff and had unrestricted access to the Authority's senior management in the performance of our audit.

## **MANAGEMENT'S REPRESENTATIONS**

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

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated June 26, 2014, on the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*.

We have identified, and included in Attachment II, certain control deficiencies related to the Authority's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention.

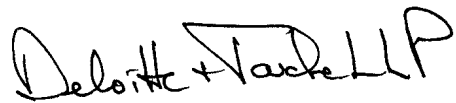
The definition of a control deficiency is also set forth in Attachment II.

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 III and should be read in conjunction with this report.

\* \* \* \* \*

This report is intended solely for the information and use of the management, the Board of Directors, and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.



**POHNPEI STATE GOVERNMENT  
HOUSING AUTHORITY**

**P.O. Box 1109**

**Kolonia, Pohnpei, FSM 96941**

Phone: (691)320-2582/2096 Fax: (691)320-2304

June 26, 2014

Deloitte & Touche  
P.O. Box 753  
Kolonia, Pohnpei 96941

Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of Pohnpei State Housing Authority (the Authority) as of September 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position and of 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 position, results of operations, and cash flows of the Authority 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 basic financial statements of financial position of the Authority in conformity with GAAP.
- b. The design, implementation and maintenance of programs and controls to prevent and detect fraud.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. 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. Additionally, we agree with the recorded adjustments included in Appendix A.

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 basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:



- a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
  - b. Deposits and investment securities are properly classified in category of custodial credit risk.
  - c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
  - d. Required supplementary information is measured and presented within prescribed guidelines.
  - e. Applicable laws and regulations are followed in adopting, approving and amending budgets.
  - f. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - g. Revenues are appropriately classified in the statement of activities.
2. The Authority has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
  3. The Authority has made available to you all:
    - a. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Board minutes, last of which was held on March 18, June 21, July 18 and August 15, 2013.
    - b. Financial records and related data for all financial transactions of the Authority. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Authority and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
  4. There have been no:
    - a. Action taken by the Authority's management that contravenes the provisions of FSM, state laws and regulations or of contracts and grants applicable to the Authority.
    - 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.
  5. 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 such uncorrected misstatements has been attached as Appendix B.
  6. The Authority has not performed a formal 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 Authority and do not believe that the financial statements are materially misstated as a result of fraud.



7. We have no knowledge of any fraud or suspected fraud affecting the Authority involving:
  - a. Management
  - b. Employees who have significant roles in internal control over financial reporting
  - c. Others if the fraud could have a material effect on the financial statements
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Board ("GASB Codification") Section C50, Accounting Standards Codification (ASC) 450, *Claims and Judgments*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. We are responsible for compliance with local and state laws, rules and regulations, including compliance with the provisions of grants and contracts relating to the Authority'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 Authority is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
12. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Authority's ability to initiate, record, process, and report financial information.
13. 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.

Except where otherwise stated below, matters less than \$14,000 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.

14. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
15. The Authority 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 accounts receivable or payable, including sales, purchases, loans, transfer, leasing arrangements, and guarantees (written or oral).
  - b. Guarantees, whether written or oral, under which the Authority is contingently liable.



17. In preparing the financial statements in conformity with GAAP, 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 GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 5 to the financial statements.
20. The Authority 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 Authority 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 subsequent to September 30, 2013, but before June 26, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
23. Regarding required supplementary information:
  - a. We confirm that we are responsible for the required supplementary information
  - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period



24. During fiscal year ended September 30, 2013, the Authority implemented the following pronouncements:
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements of the Authority.
  - GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements of the Authority.
  - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the financial statements of the Authority.
  - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.
25. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.



26. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.
27. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.
28. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.
29. We have disclosed to you that no change in the Authority's internal control over financial reporting has occurred during the Authority's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Authority's internal control over financial reporting.
30. There have been no actions taken by management, which contravene the provisions of local laws or regulations or of contracts applicable to the Authority.
31. Provisions have been made to reduce accounts receivable to their estimated net realizable value.
32. The Authority is responsible for determining and maintaining the adequacy of the allowance for doubtful loans 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 balances.
33. We have identified to you all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
34. The Authority has obligated, expended, received, and used public funds of the Authority in accordance with the purpose for which such funds have been appropriated or otherwise authorized by federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by federal law.

35. Money or similar assets handled by the Authority on behalf of the Federal Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.
36. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Authority has been discovered.



---

Paulino Lambert  
Executive Director



**ATTACHMENT I, CONTINUED**  
**APPENDIX A**

**Pohnpei State Housing Authority**  
**Summary of Current Year Audit Adjustments and Reclassifications**  
**September 30, 2013 Audit**

**Journal Entries - AJE**

#	Name	Debit	Credit
1 AJE To correct opening fund			
4417	Miscellaneous expense	679.08	-
3102	Retained Earnings	-	186,932.00
1401	PSHA loans receivable - regular	95,511.31	-
1402	PSHA loans receivable - low cost	90,741.61	-
		<u>186,932.00</u>	<u>186,932.00</u>
	To record interest income		
3 AJE To record depreciation			
4407	Depreciation	16,123.23	-
1802	Accumulated Depreciation		16,123.23
		<u>16,123.23</u>	<u>16,123.23</u>

**ACKNOWLEDGEMENT:**

We have reviewed the above adjusting entries and agreed for them to be recorded in the September 30, 2013 financial statements. These adjustments are due to errors, not due to fraud or illegal activities.

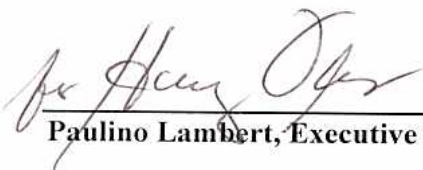
  
\_\_\_\_\_  
Paulino Lambert, Executive Director

Pohnpei State Housing Authority  
 Summary of Current Year Uncorrected Misstatements  
 September 30, 2013 Audit

	Assets	Liabilities	Equity	Profit and Loss
Entry Description	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
1. To correct loan receivable. Loan Receivable Interest Income	37,223.00			(37,223.00)
2. To correct loan receivable. Interest Income Loan Receivable	(16,118.00)			16,118.00
3. To adjust accounts payable. Accounts Payable Other Income		7,823.00		(7,823.00)
4. To correct loan receivable. Interest Income Loan Receivable	(9,610.00)			9,610.00
5. To adjust cash balance. Cr. Cash Dr. Miscellaneous expense	(5,308.00)			5,308.00
	6,187.00	7,823.00	-	(14,010.00)

**ACKNOWLEDGEMENT:**

We have reviewed the above adjusting entries and agreed for them to be recorded in the September 30, 2013 financial statements. These adjustments are due to errors, not due to fraud or illegal activities.



Paulino Lambert, Executive Director

## SECTION I – DEFICIENCIES

We identified the following deficiencies involving the Authority's internal control over financial reporting as of September 30, 2013:

(1) Cash Account

Comment: The general ledger balance of the HPG is \$5,308 more than the amount stated in the reconciliation.

Recommendation: The Authority should frequently monitor disbursements out of the HPG Savings Account and perform accurate reconciliation.

(2) Fixed Asset

Comment: Controls do not appear to be in place to require price quotations for fixed asset procurement.

Recommendation: The Authority should obtain at least three price quotations to support fixed asset procurement decisions.

(3) Loan Processing

Comment: Property inspections will be carried out by PSHA inspectors or any other competent inspector who may be contracted to perform such services. For new loans tested, there were no property inspection or contract agreement documents evidencing that such requirement took place before loan issuance. There is a lack of control over maintaining and monitoring loan requirements.

Recommendation: The Authority should comply with its Rules and Regulations of Application Processing.

(4) Project Requirements

Comment: An applicant is responsible for obtaining required permits for construction before the project can begin. For new loans tested, there were no required permits such as a building permit, EPA protection permit, Earth moving permit or HPO clearance permit.

Recommendation: The Authority should comply with its Rules and Regulations of project requirements.

(5) Housing Project

Comment: Real Property or land to be used in connection therewith, including terms of years, and liens by way of mortgage must be specifically identified, which is a loan requirement. For new loans tested, a borrower was not the owner of the land collateralizing the loan.

Recommendation: The Authority should comply with its Rules and Regulations of project requirements.

## SECTION I – DEFICIENCIES, CONTINUED

### (6) Procedures for Application Processing

Comment: All applications received by PSHA should have required documents such as: Verification of employment, credit check/reference, AFI calculation form, property inspections report, budget, check stub, house design, dev. plan, and materials list, permits, a before picture and property map/direction map. For new loans tested, there was no verification of income on file.

Recommendation: The Authority should comply with its procedures for application processing requirements.

## SECTION II – DEFINITION

The definition of a deficiency 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 is not always 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 qualifications 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 Authority'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.