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May 26, 2014

Board of Trustees
Federated States of Micronesia Social Security Administration

Dear Members of the Board of Trustees:

We have performed an audit of the financial statements of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of December 31, 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 May 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 Administration 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, has been described in our engagement letter dated September 11, 2013. 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 Administration’s basic financial statements and to disclaim an opinion on the required supplementary information for the year ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on the Administration’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 December 31, 2013 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.

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 Administration'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 Administration's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Administration'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.

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 ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Administration's 2013 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based upon 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 capital assets. During the year ended December 31, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

SIGNIFICANT ACCOUNTING POLICIES

the Administration's significant accounting policies are set forth in Note 2 to the Administration's 2013 financial statements. During the year ended December 31, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Administration:

- 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. 66, *Technical Corrections - 2012*, which enhanced the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

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

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 Administration.

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 Administration.

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 Administration.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, which improves accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The provisions in Statement 71 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 Administration.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information, such as Annual Reports, 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. In the event that the Administration issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the Administration'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 Trustees.

ALTERNATIVE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended December 31, 2013.

DISAGREEMENTS WITH MANAGEMENT

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

MAJOR ISSUES DISCUSSED 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 Administration's management and staff and had unrestricted access to the Administration's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Administration's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Administration 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

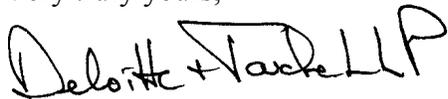
We have issued a separate report to you, also dated May 26, 2014, on the Administration's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance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

* * * * *

This report is intended solely for the information and use of the Board of Trustees, management, and others within the Administration 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 Administration for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.



FEDERATED STATES OF MICRONESIA
SOCIAL SECURITY ADMINISTRATION

ATTACHMENT I

P.O. Box L
Kolonia, Pohnpei FM 96941
Tel: (691) 320-2709/2181 Fax: (691) 320-2607

May 26, 2014

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

We are providing this letter in connection with your audits of the statements of fiduciary net position of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, as of December 31, 2013 and 2012, and the related statements of changes in fiduciary net position for the years then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position and results of operations of the Administration 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 the financial position of the Administration and net assets available for benefits and changes therein 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 required by the Governmental Accounting Standards Board.
- c. The fair presentation of the additional information accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.
- d. The design, implementation, and maintenance of programs and controls to prevent and detect fraud.
- e. Establishing and maintaining effective internal control over financial reporting.
- 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 pension and other postemployment benefit system and cash and investment pools 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 basic financial statements referred to above are fairly presented in conformity with GAAP and the notes to financial statements include all disclosures required by laws and regulations to which the Administration is subject. In addition:
 - a. Deposits and investment securities are properly classified in category of custodial credit risk.
 - b. Required supplementary information is measured and presented within prescribed guidelines.
 - c. Other supplementary information is measured and presented within prescribed guidelines.
 - d. Capital assets are properly capitalized, reported, and, if applicable, depreciated.
2. We are responsible for the fair presentation of the Combining Schedule of Fiduciary Net Position and Combining Schedule of Changes in Fiduciary Net Position accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements.
3. The Administration has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
4. The Administration has provided you:
 - a. Resolutions and minutes of meetings of the Board of Trustees pertinent to the operation of the Administration or summaries of actions of recent meetings for which minutes have not yet been prepared. For recent meetings for which minutes have not yet been prepared, nothing of significance was discussed that would require adjustments to, or disclosure in, the basic financial statements.
 - b. Financial records and related data for all financial transactions of the Administration and for all funds administered by the Administration. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Administration 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.

5. There has been no:
 - a. Action taken by the Administration management that contravenes the provisions of Federated States of Micronesia laws and regulations, or of contracts and grants applicable to the Administration.
 - b. Communication from other governmental or regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
6. The Administration 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 Administration 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 Administration 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 Administration received in communications from employees, former employees, 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 ("GASB Codification") Section C50, *Claims and Judgments*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.
12. We are responsible for compliance with FSM laws, rules and regulations, and provisions of grants and contracts relating to the Administration'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 Administration is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
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.

14. There have been no unusual or infrequent events or transactions, occurring after the latest benefit information date but before issuance of the Administration's financial statements that might affect the usefulness of its financial statements when assessing the Administration's present and future ability to pay benefits.
15. We believe that the actuarial assumptions and methods used by the actuary for funding purposes and for measuring the unfunded actuarial accrued liability as of January 1, 2011 are appropriate in the circumstances.
16. The Administration is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Administration has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Administration is also exposed to investment risk. This risk is limited to diversification of the portfolio, establishment and monitoring of investment policies and guidelines, and monitoring of investment performance. In addition, investment consultants monitor the Administration's activities and advise the Board of Trustees.

Except where otherwise stated below, matters less than \$250,000, 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.

17. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
18. The Administration has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
19. 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 Administration is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line-of-credit, or similar arrangements.
 - d. All off-balance-sheet derivative financial instruments (e.g., futures, options, swaps), including outstanding commitments to purchase or sell securities under forward placement and standby commitments.
 - e. Financial instruments with significant individual or group concentration of credit risk.

20. 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.
21. 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 Administration 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.
22. 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 4 to the financial statements.
23. The Administration 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.
24. The Administration has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
25. There have been no changes in the method or significant assumptions used to determine the amount of unfunded actuarial accrued liability.
26. We agree with the findings of the actuary in determining the amount of unfunded actuarial accrued liability and have adequately considered the qualifications of the actuary in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the actuary with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the actuary.

27. No events have occurred after December 31, 2013 but before May 26, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the Administration's financial statements.
28. 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 of Government Accounting and Financial Reporting Standards 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.
29. Regarding supplementary information:
 - a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards 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.
30. Management is aware of its responsibility to disclose whether, subsequent to December 31, 2013, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred. We represent to you that no such changes or corrective action has so occurred.
31. Receivables recorded in the financial statements represent valid claims or other charges arising on or before the date of the statements of net assets and have been appropriately reduced to their estimated net realizable value.
32. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
33. In estimating fair values of certain assets and liabilities, we believe that the market assumptions used were the most appropriate in the circumstances.

34. During fiscal year 2013, the Administration implemented the following pronouncements:

- 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.
- GASB Statement No. 66, *Technical Corrections - 2012*, which enhanced 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. The implementation of this statement did not have a material effect on the financial statements.

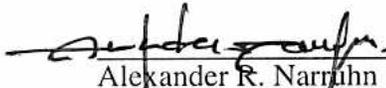
35. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, 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 Administration.

36. 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 Administration.

37. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, which improves accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Administration.

38. On September 15, 2005, an agreement was entered into between the Prior Service Trust Fund Administration (PSTFA) Board and the U.S. Department of the Interior to delegate the Board's obligations to and responsibility for the enrollees eligible for the Prior Service Benefits Program to the Social Security Systems of the Republic of the Marshall Islands, the Republic of Palau, the Federated States of Micronesia, and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Administration shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds. The Administration assumed administrative functions and received an allocation of \$361,324 and \$408,879 from PSTFA in 2013 and 2012, respectively, of which \$223,247 and \$236,645, respectively, have been paid out as benefits for the years ended December 31, 2013 and 2012. However, while the Administration accepts the liability for any amounts received, the Administration does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. At December 31, 2013, the amount of \$246,215 is available for future benefit payments under the Prior Service Benefits Program.

Very truly yours,



Alexander R. Narruhn
Administrator



Teresita Dayao
Controller