Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671) 646-3884
Fax: (671) 649-4932
www.deloitte.com

June 26, 2015

Ms. Maria Laaw, Director
Office of Administrative Services
Yap State Government:

Dear Director Laaw:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State) as of and for the year ended September 30, 2014 (on which we have issued our report dated June 26, 2015), 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 State'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 State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State'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 State's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Governor, Honorable Tony Ganngiyan, also dated June 26, 2015, on our consideration of the State'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 management of the State 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. However, this report is also a matter of public record.

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 State for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – DEFICIENCIES

We identified, and have included below, other matters involving Yap State Government's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

1. Cash Collection

Condition: Certain cash receipts were not timely deposited. It appears that the delay may be due to the absence of procedures governing cash collections.

Recommendation: Yap State Government should establish procedures to achieve timely deposits.

2. Payroll Expenses

Condition: Per Public Service System (PSS) Regulations, the supervisor of each office is responsible for approving leave requests. For two (or 8%) of twenty-five-payroll transactions tested, we were not able to examine supervisory approval of the Leave Application.

Recommendation: Yap State Government should comply with PSS Regulations.

3. Non-payroll Price Comparison

Condition: Price comparisons were not obtained prior to purchase of certain meals.

Recommendation: Yap State Government should comply with its procurement policy.

4. Non-payroll Expense for Penalties

Condition: Yap State Government incurred late fees related to power payments.

Recommendation: Payments should be timely to minimize penalties.

5. Daily Cash Count

Condition: The year end cash count does not agree to the general ledger.

Recommendation: Yap State Government should establish procedures over daily cash counts and variances between the general ledger and cash counts should be investigated.

6. Balance Sheet Aging Schedules

Condition: Aging schedules of several balance sheet accounts were not created. Several documents supporting recorded accounts payable and deferred revenue were not provided.

Recommendation: Yap State Government should establish procedures to monitor and organize balance sheet schedules and maintain these documents in file.

7. Bookkeeping

Condition: There were numerous audit adjustments which impacted a significant number of accounts. Many of the adjustments relate to the lack of year-end closing entries.

Recommendation: We recommend that management determine and record year-end closing entries, such as accounts receivable, accounts payable, deferred revenue and the allowance for uncollectible accounts. Procedures should be formalized to require periodic record keeping.

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 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 State'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.